



October 2023

Small Business and the Cost-Of-Living Crisis



In partnership with



Small Business Accelerator



Small Business Britain is the UK's leading champion of small businesses, supporting all 5.5 million small businesses in the UK – no matter their background or circumstances, their location, their sector or their ambition. Through a series of reports, events and campaigns, Small Business Britain champions, inspires and accelerates small businesses in the UK to foster growth and increased confidence.



Small Business Accelerator

The **Amazon Small Business Accelerator** serves the evolving needs of the UK's thriving small business community. It is a free educational programme that has supported hundreds of thousands of small and medium-sized enterprises so far with a suite of free-to-use resources for all start-ups, entrepreneurs and small or medium-sized businesses.

Current and aspiring business leaders can access more than 20 courses and 50+ videos of content on topics like how to build a business online, supercharge operations, grow sales, achieve net zero and other best in class insights from the country's small business experts and Amazon leaders.

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Setting The Scene



Michelle Ovens CBE
Founder, Small Business Britain

Over the first half of 2023, it has been our pleasure at Small Business Britain to work with the Amazon Small Business Accelerator to engage with small businesses and policy makers around the country on the challenges and opportunities of the cost-of-living crisis.

This has involved online training, sharing advice on how to sell during a crisis; it has included face-to-face breakfast events all the way up in Scotland and across to Grimsby; it has also included a programme of one-to-one mentoring for small businesses to have a great opportunity to get expert help at a critical time.

This has given us many opportunities to hear directly from small businesses about the challenges they are facing. It has also given us excellent insight into how they are addressing those challenges, and what more they need this year and in the future.

The backdrop for 2023 is the legacy of over three years of real and significant challenges for business. Navigating the challenges of Brexit disappeared into the background for a while when in 2020 we faced a once in a generation crisis with COVID and the first of many lockdowns.

The economic turmoil has been immense for businesses, and even when they saw that starting to recover in 2022, there came new challenges with the energy crisis, high inflation, rising interest rates and growing challenges with import and export to the EU.

The situation for small businesses in the first half of 2023 can best be characterised as challenging, but with some potential still. Businesses are largely hanging on - not yet back to thriving in the main, but not yet letting the tide go over their heads.

Although narrowly avoiding recession so far in 2023, and with some signs of business optimism as the summer continues, there is little indication that inflation will improve significantly before the end of the year and there the risk of recession remains.

There remain therefore some major hurdles for businesses, and in the short term they will require some creativity, innovation and working together to overcome. April 1st brought a number of new challenges to businesses that were really hoping the Spring would bring some respite. One challenge in particular is the cost of energy, with government support for small businesses dropped, bringing higher energy bills for many businesses that were already struggling with the costs. This has not been felt immediately, but is growing in impact as bills become due and costs continue to rise going into the summer.

Although there is strong hope that energy prices will drop later in the year overall, some businesses will struggle to get to that point. Higher minimum wage costs will also add pressure to businesses and there is longer term pressure from rising corporation costs (though most small businesses will remain below the threshold for this rise).

This is of course impacting more than just small businesses. As consumers see costs go up across the board too, spend has been intermittent over the winter and spring, and this has translated into dropping footfall and visitors for small businesses. Although overall the economy is broadly flat and not in decline, spend has shifted around and this means small businesses need to shift accordingly.

The focus for Small Business Britain, the Amazon Small Business Accelerator and of course wider society therefore needs to be supporting these businesses through these challenges to hopefully more positive economic news in the second half of the year. With the right support, inspiration and guidance, businesses can weather this continued storm and then be in a better position once inflation comes down, energy costs come down, and consumer spend returns to a more buoyant steady state.

Our focus this quarter has been on listening to small businesses, creating opportunities for them to share their experience and collaborate, supporting with expert help and for 50 businesses, intervening with one-to-one expert mentoring. The impact of this is significant and we know that the opportunity to talk through problems can be the silver bullet for businesses. As well as being critical for mental health, these sessions help businesses see opportunities and solutions that they often already knew, but maybe were too overwhelmed, busy or lacked confidence to make the most of.

There is huge opportunity to unleash the potential of businesses in the UK. Working together we can make a big difference. We can all play a role: consumers can consciously spend with small businesses; small businesses can collaborate and trade with each other; business organisations can step in with support and advice; big businesses can offer their expertise, advice and support; and policy-makers can put small businesses at the heart of their approach and thinking for the short and long term.

Whilst most small businesses do not expect government to continue to intervene financially at the levels seen during the pandemic, there is a sense that support dropped off too rapidly when the economic environment remained turbulent. The acute recognition of the importance of small businesses seen during the pandemic with programmes such as Bounce Back Loans, Furlough, SEISS, local authority grants and more feels less evident to small businesses in 2023.


Part of this work was to ask small businesses what they are looking for from government, and it makes for interesting reading. Businesses at their heart want the freedom to run their businesses and thrive. Freeing them up from hurdle after hurdle will enable this growth. And that is going to be the critical focus for 2023 and beyond.

As the world continues to change and it is more and more difficult to predict what may come next, this work of insight and intervention will continue and develop. We need to continue to listen to small businesses and respond appropriately - both locally, nationally, with skills, finance and support.




Executive Summary

Key Takeaways

 Despite the challenging economy, **small businesses are pressing on with growing confidence.**

 Even with rising costs, small businesses still see **depressed customer spend as the key challenge** and this is impacting cashflow.

 Small businesses are increasingly **looking at alternative markets** to find growth.

 Many small businesses are **not seeking support** with the challenges they are facing, going it alone.

Small businesses are the heart and soul of the economy, and as they contribute over £2 trillion to UK GDP, they are a key part of economic health.

The cost-of-living crisis over 2022 - 23 has therefore had a profound impact on small businesses - making up such a large part of the economy, there is no way it could be avoided. Inflationary pressures on input costs, high energy costs, finance cost increases with interest rate rises, challenges with export due to Brexit and strains on staffing have all contributed to an incredibly challenging business environment.

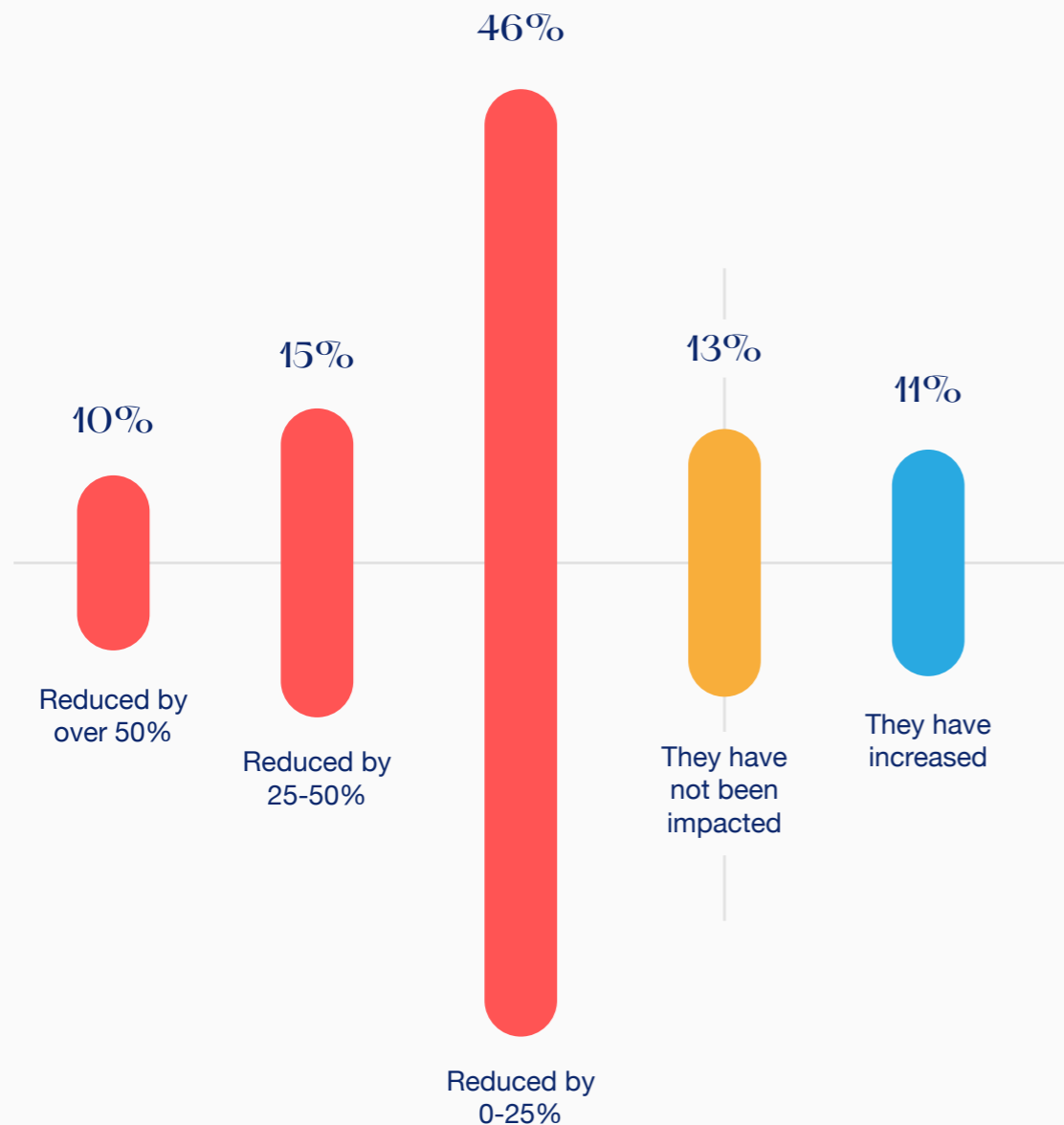
Remarkably, even after years of COVID turmoil, small businesses are pressing on with optimism and growing confidence, characteristic of the incredible strength of entrepreneurship.

As Small Business Britain and the Amazon Small Business Accelerator have gone round the country talking to small businesses about how the crisis is impacting them, one thing is clear: small businesses are feeling the pinch but picking themselves up and keeping going regardless.

In our polling, small businesses state that it is cashflow (38% of businesses) and suppressed customer demand (36%) that are the most significant single challenges facing their business. This is making life challenging for the businesses.

Margins have taken a hit for this, with 47% saying their margins have been reduced by between 0 and 25% over the last six months. Another 26% say their margins have reduced by over 25% - a worrying trend.

Q: To what extent have your margins been impacted over the last 6 months due to the current economic climate?



Small businesses have shown incredible depths of strength during a very hard three years, and their agility to keep changing and adapting has been at the heart of that. Businesses have constantly looked at where they can sell more, who else they can engage with, what else they can do and how to sweat their assets to the best of their ability.

What has come out of that is a new approach to business, applying a growth mindset at all stages, that keeps looking for what will come next. We have seen product businesses become services businesses; we have seen micro businesses export overseas; and we have seen businesses completely change their target customer when a sector goes through changes or hard times.

Export remains a key opportunity for small businesses, with remarkably few small businesses exploring this option to date. Despite many facing continued challenges with exporting to the EU post Brexit, many have also achieved success in exporting elsewhere in the world, accessing significant new markets as a result.

The US and Middle East are top of small business lists for export, with economies still thriving and customers still spending. Tapping into expertise such as the Department for Business and Trade is hugely important for taking this step. However, simply talking to other businesses who have started on their export journey also proves to be a huge motivating and enabling factor for businesses. A number of businesses shared that they had not considered export, but when hearing about peer businesses giving it a go they were inspired to start.

It is clear from our conversations with small businesses that success can be had by making the most of the opportunities that are available, despite the economic challenges.

Focus should be on agility, keeping it personal, new markets and sustainability, the areas reported nationwide as offering hope to businesses.

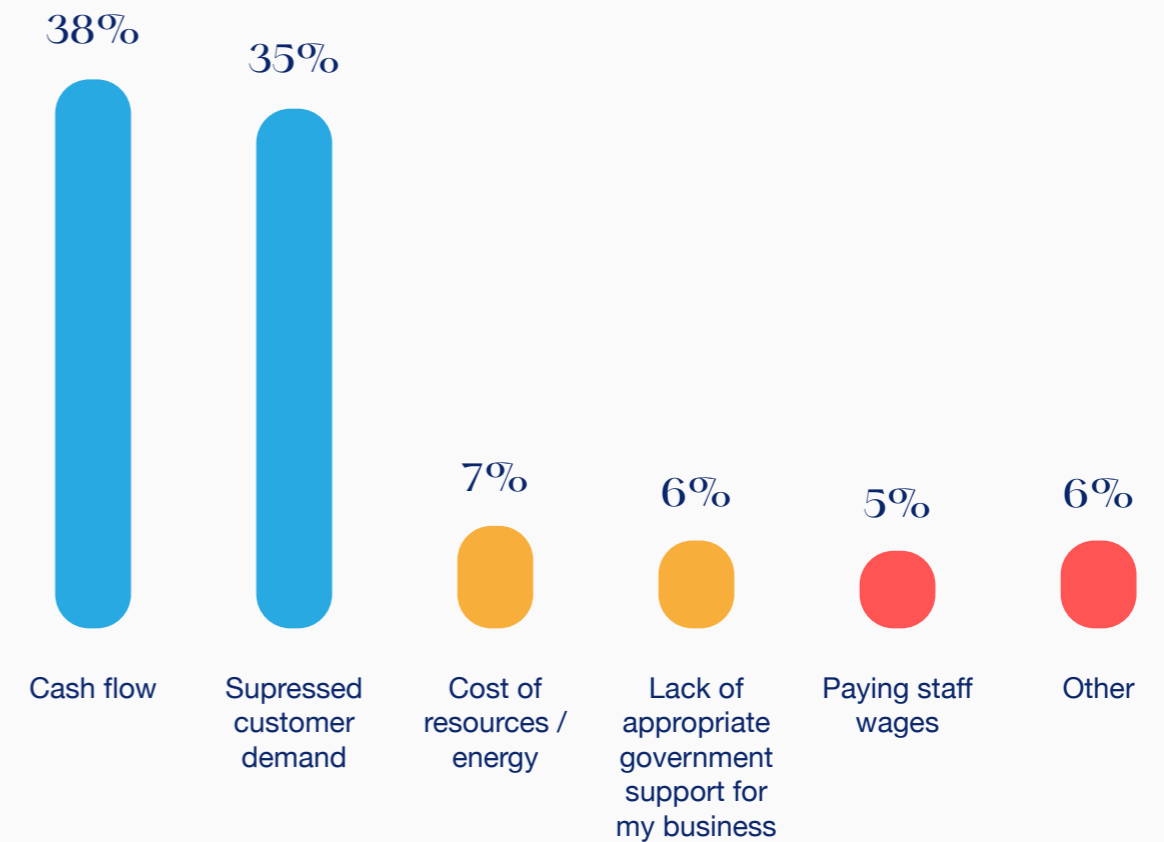


“One of the strengths that the small business community has in abundance is our flexibility and ability to move quickly to find new revenue streams. We need to find more ways to help firms across the UK to embrace this.”

Stephanie Douglas
Owner of *Don't Buy Her Flowers*

Small Business Challenges

Q: What is the most significant challenge your businesses is facing?



It is clear that the biggest challenge businesses are facing right now is customer spend being down, which is having an obvious, but significant impact on cashflow. With all the challenges facing business, the key focus remains on getting business through the door. This is the case for B2B, B2C, online and offline businesses. We are seeing depressed spend across sectors, leading to the sluggish economy we are reading about in the media.

This is not to say that things have stopped entirely. Businesses are pressing on and there is still trade out there. But things are considerably tougher for businesses, stimulating a need to adapt and change.

Most businesses have seen some impact on margin from increased costs, and this adds extra pressure. Nearly half of businesses have seen up to 25% reduction in margin. For many businesses, this takes them close to inviable. It has led in many cases to prices rises and that has had an impact on customer spend too.

This does not come without a cost to the business owner. Over 70% of business owners say the pressure has had at least a slight if not a very negative impact on their mental health. We need to not lose sight of this further challenge to running a business, and also this opportunity to intervene and support the business.

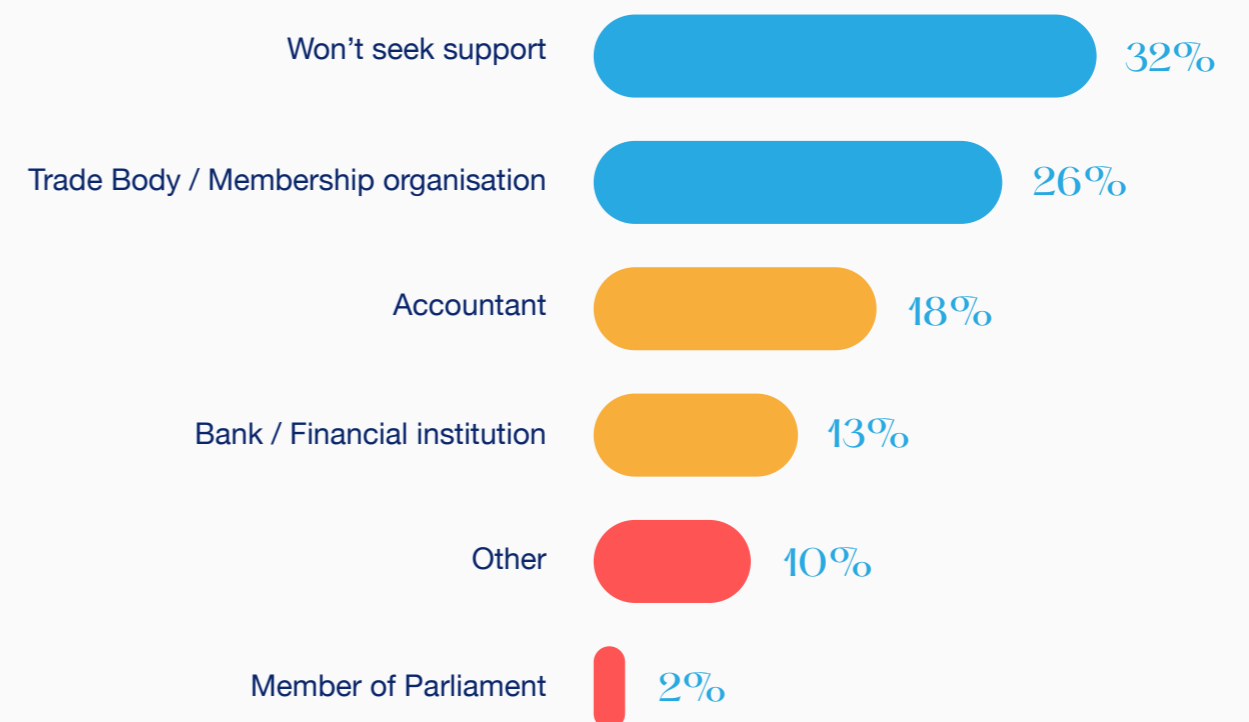
Q: On a scale of 1-5 (1 being negative and 5 being positive), to what extent is the current economic climate having an impact on your mental health and wellbeing?



In order to tackle these significant challenges, many small businesses are reaching out for support. However, 32% of small businesses are not reaching out for support at all, which is concerning when we are seeing so many struggle. Mentoring, such as that provided by Small Business Britain and the Amazon Small Business Accelerator this year have proven to be instrumental in changing business opportunities and outlook. Businesses not seeking support are already on a backfoot.

When we asked businesses who they would most likely ask for support, the most common answer was no one. This is both a concern, but also an opportunity to make a big impact with targeted intervention for businesses that are isolated or do not know where to turn.

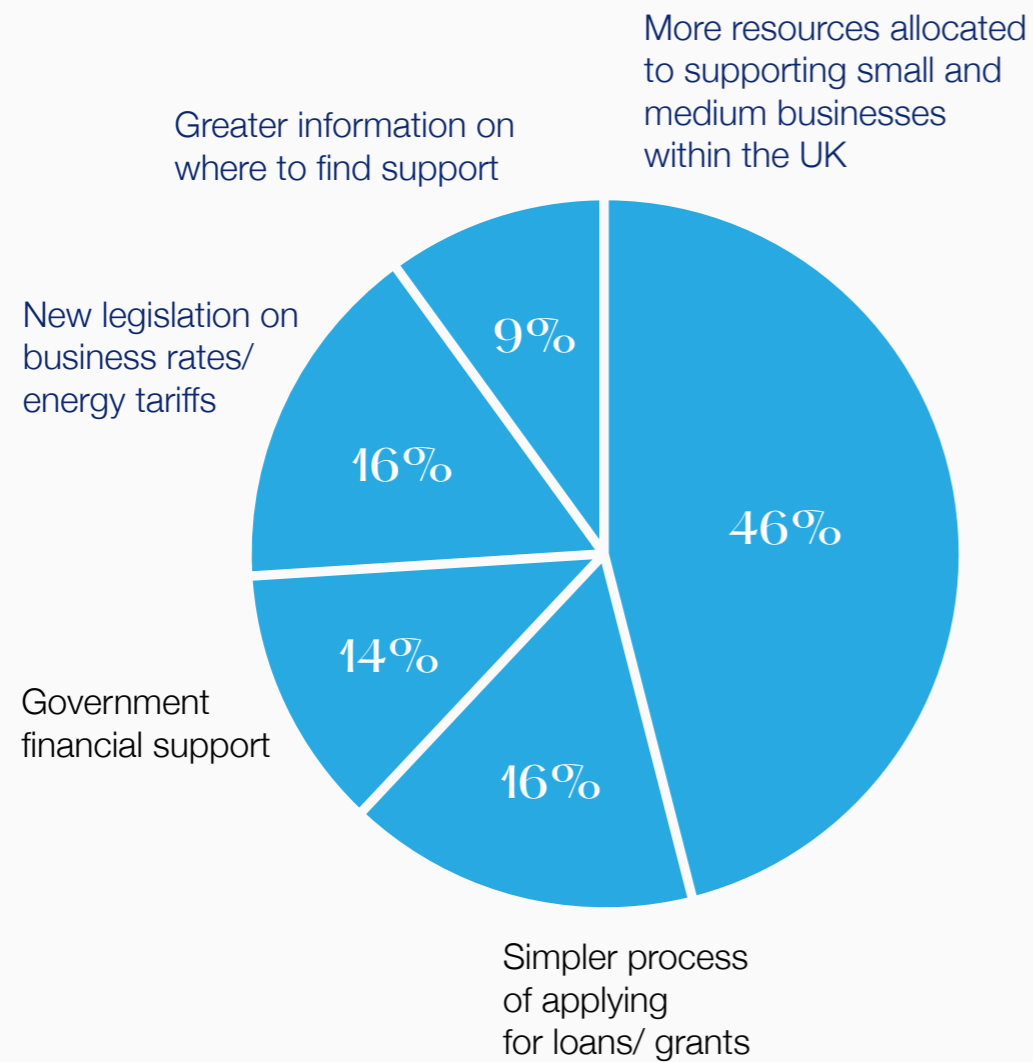
Q: Who are you most likely to reach out to for support on the cost of living/ doing business?



The next biggest response was trade body or member organisation, such as Small Business Britain. Organisations with direct relationships with communities, that enable businesses to meet each other and get support from peers, that help to create collaboration locally and nationally, can and should play a big role in getting businesses through this challenging time.

Accountants come next and are an often under-utilised resource for businesses. As business experts, often working with many businesses at a time, small businesses should tap into this resource more. Often businesses see accountants as a source of stress rather than support. Many told us that this changed during the pandemic when accountants had a strong role to play in business support and pivoting. Since "returning to normal" however, this trend has reversed.

Q: What one ask would you have for policy-makers to help you with the cost of living / doing business?

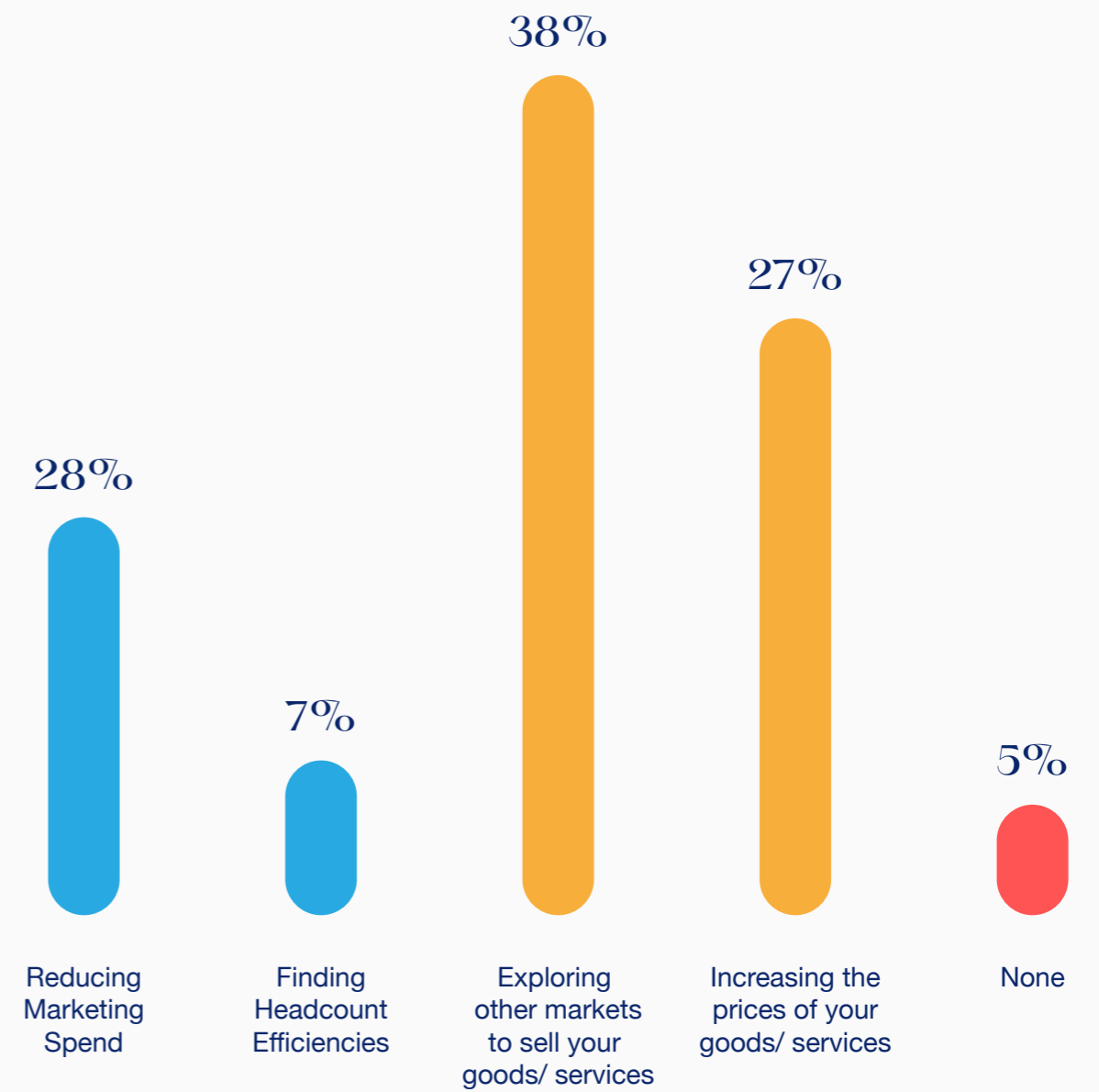


According to feedback from our breakfast events, very few businesses see reaching out to their MP as a source of support. There is also little evidence that since COVID support packages stopped, businesses see central government as a source of help. Most businesses do not see key government support programmes, such as Help To Grow, as relevant for them (requiring a minimum of five employees cuts out the majority of all businesses).

There is a sense that government can do more to support small businesses. This does not necessarily need to be financial support, with just 14% prioritising this. But nearly half of businesses are looking to the government to prioritise small business in the allocation of resource.

Opportunities For 2023 / 24

Q: Have you been doing any of the following in response to the current economic period?



Of course, with challenges there also come opportunities. Many businesses have been responding to the cost-of-living crisis with action, and for many this is paying off.



Growing The Pie

Exploring other markets comes out top as a key response to the economy stagnating, and this offers huge opportunity to businesses for 2023 and beyond. With a flat domestic market, looking elsewhere has to be a good option to find growth or replace reduced spend or footfall at home.

Businesses that are looking further afield are reporting greater confidence, more optimism and it stimulates appetite to try other new things. Marketplaces offer an ideal route to small businesses to take that first step into export. For many businesses, getting on a plane to explore export markets simply is not a viable option. However, making the most of existing overseas customer bases is a great way to extend reach and impact.

Discussion with small businesses at the breakfast roundtables showed that export has moved much higher up the small business priority list, and this is good news for opportunity creation.

Businesses are looking for more support from government to sell into the EU again, which remains a major hurdle for the smallest of businesses. However, many are looking further afield for export opportunities to fill a gap left in the UK. The US and the Middle East are in particular markets coming onto small business radar. Sons of Amazon, attending the Edinburgh breakfast event, noted that selling on Amazon significantly helped them get into the US.

Mental Health

The downside of this continued agility, flexibility and change is the impact on small business mental health. It is clear from small business feedback that the continued need to pivot, adapt and solve problems, although key entrepreneurial skills, is taking its toll on small business owners.

Critical to navigating this is a support infrastructure that is there in the good times and the bad. Collaboration, communities and networks - local and national, online and off - all play a role in supporting small business mental health.

Businesses shared the incredible role of their peers during the COVID pandemic in keeping them going, keeping them motivated and maintaining confidence when it was taking multiple hits. This spirit of community needs to continue post-pandemic, and become business as usual for us all.

Supporting small business mental health has a direct impact on supporting small business financial health. If we are going to start somewhere, this is a good place to pick.

Raising The Price

Businesses are, and should be, looking at increasing their prices too. Realistically, small businesses cannot absorb inflationary pressures - and most customers do not expect them to. Businesses reported, particularly at our breakfast roundtables, that when positioned right with the customer, price rises can reinforce the value they get from the small business and not necessarily deter customers from returning. This will allow businesses to maintain margins with rising costs and give them some flexibility in a challenging market.

Sustainable Growth

Sustainability is a key area of growth and creates significant opportunities for small business. Increasingly this is a critical issue for consumers who are more likely spending with businesses that share their values.

One business at the Edinburgh breakfast event (a second-hand clothing business focusing on 00's and 90's garments) said since lockdown she has been able to start a side hustle of selling pre loved vintage clothes online. She has combined taking advantage of growing digital skills and targeting a consumer sustainable trend. The business has been a success and "stuck" due to consumers being more mindful about sustainable living.

Creating a strategy for articulating sustainability actions or credentials, or even starting new sustainability programmes in the business, can offer lucrative opportunities for engaging customers and additional sales.



Collaboration

Collaborations are key to small business success. Both with other small businesses and with larger firms that can help with reach and impact.¹

Small businesses can take advantage of collaborations to offer their services or products in partnership. Businesses report significant success in this route and that it just takes having that first initial conversation and putting yourself "out there".

Gail Bryden, founder of *JustBe Botanicals*, said she secured collaborations with *Lululemon* and *White Stuff* just by getting in touch and taking a chance. Through using the power of collaboration and understanding that they all share the same customer base, it was a fantastic opportunity for all businesses involved to deliver a better service and encourage increased customer engagement. Businesses can start by reaching out to their networks and offering their skills and services. Peer-to-peer conversations, networking opportunities such as the breakfast events run as part of this programme, can lead to incredible opportunities for growth.





"Make sure you go over your margins for each product or service you offer, and check and review your prices to make sure they are competitive and you are not being left behind in shifting-up."


Catherine Erdly
Founder of *The Resilient Retail Club*.


Key Actions and Conclusions


Key Actions For Business and Policy-Makers


 Small businesses must look at alternative markets for sales both in the UK and internationally to broaden their scope of opportunity. Government and private sector can play a role in enabling this, e.g. trade missions, mentoring.

 Small businesses should not compete on price, driving down already tight margins, but focus on value, quality and customer relationship. Mentoring can play a strong role in giving businesses the confidence and skills to deliver on this.

 Businesses should apply a “growth mindset” to be open to new ideas and change as an opportunity to grow and adapt. Mentoring can also play a role here in giving small businesses inspiration and confidence to step out of their comfort zone.

 Engaging with sustainability gives small businesses scope to maintain prices and engage with customers on value. Sustainable business practices can bring economic opportunities and should be explored this year with the support of expertise such as Small Business Britain and Planet Mark, and government guidance.

 Business organisations, government and the private sector should look at business support provision because a high number of small businesses are not accessing any support at all. Expanding the impact and reach of business support - such as through different channels, targeting marginalised groups and making it more accessible - could significantly change the sector’s outlook for the year.

 There needs to be more focus on small business mental health, both by the business and in communities across the UK.



“Businesses are facing major challenges at the moment, the energy price crisis is one thing, but it’s also vital to find where you fit within your sector, and get support from other businesses within your niche who understand your needs”

Helen Watson
Owner of *The Soap Shack*

Small businesses are taking action to address the challenges and opportunities in the market. Often this means positive action with 39% exploring other markets to sell their goods and services - a strong sign as businesses look to pivot and flex to respond to a flat home market.

It is inevitable, of course, that prices will often need to be put up in order to make ends meet, and 29% of businesses say that is exactly what they have had to do. This was discussed at length at our roundtable events with businesses broadly finding that customers were reasonably understanding about price increases given the economic outlook.

However, many businesses are still nervous about passing their increased prices (energy, inflation, finance) onto customers in the fear that they will lose those customers and begin a downward spiral. What we are hearing from businesses that have done it though is that when communicated well, when done at the right time, and when done with a planned approach to marketing, there does not have to be a negative impact on income.

In some cases, customers might rethink their spend. But since small businesses are rarely able to compete on prices, the focus on value is a good way of maintaining the customer through price rises. What many businesses have found is that the top end of the market is remarkably buoyant during a downturn - and we saw that in 2008-9 with the last recession.

Both budget and premium products and services can do well. What does less well are offers mid-market that do not distinguish themselves as value for money, or valuable to the customer. As customers look to be more savvy with their spend - not stop spending entirely, but be more conscious - then the onus is on businesses to provide greater value.

Small businesses are in a great position to do this for a number of reasons: agility due to size and lack of long decision processes or sign off for decision making; personal relationships with customers that can keep customers engaged; innovation and creativity that comes from the heart of the entrepreneur.

Methodology For Insight

Small Business Britain and the Amazon Small Business Accelerator spoke to small businesses across a number of platforms and events in the first four months of 2023. This included:

- Online webinar with 250 small businesses
- Breakfast roundtables for 65 small businesses
- One to one mentoring for 50 small businesses

As part of our interventions to support small business through the cost of living crisis, we ran a training webinar called Growing Sales In A Downturn, delivered by Andrew Ramwell, Director and business coach at *Do and Know Ltd*.

Welcomed to the session by shadow Business Minister Bill Esterson MP, attendees had an in-depth insight into strategies for taking on the cost of living crisis head on.

During the session, participants took part in polling to give their feedback on topics such as the impact of the economic situation on their business, their outlook, their responses to the situation and their mental health.

As well as online training, the programme encompassed face-to-face sessions around the UK, in London, Edinburgh and Grimsby. These sessions brought together local businesses, business experts and policy-makers to talk about how they were responding to the cost of living crisis, and critically how they were being successful at this time. These sessions were focused on sharing experiences and insight, and really demonstrated that the peer-to-peer local impact can be significantly positive.

Finally, 50 businesses received one-to-one mentoring with an expert business coach. These sessions were incredibly impactful with over 95% of businesses scoring them good or very good. One business encapsulated this with, "The mentor really helps to put things into perspective and get me back on track with areas I need to focus on within my business. Their expert knowledge is so valuable."





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If you would like to know more about this research, or would like to get involved with future reports, please do get in touch. You can reach us at:

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