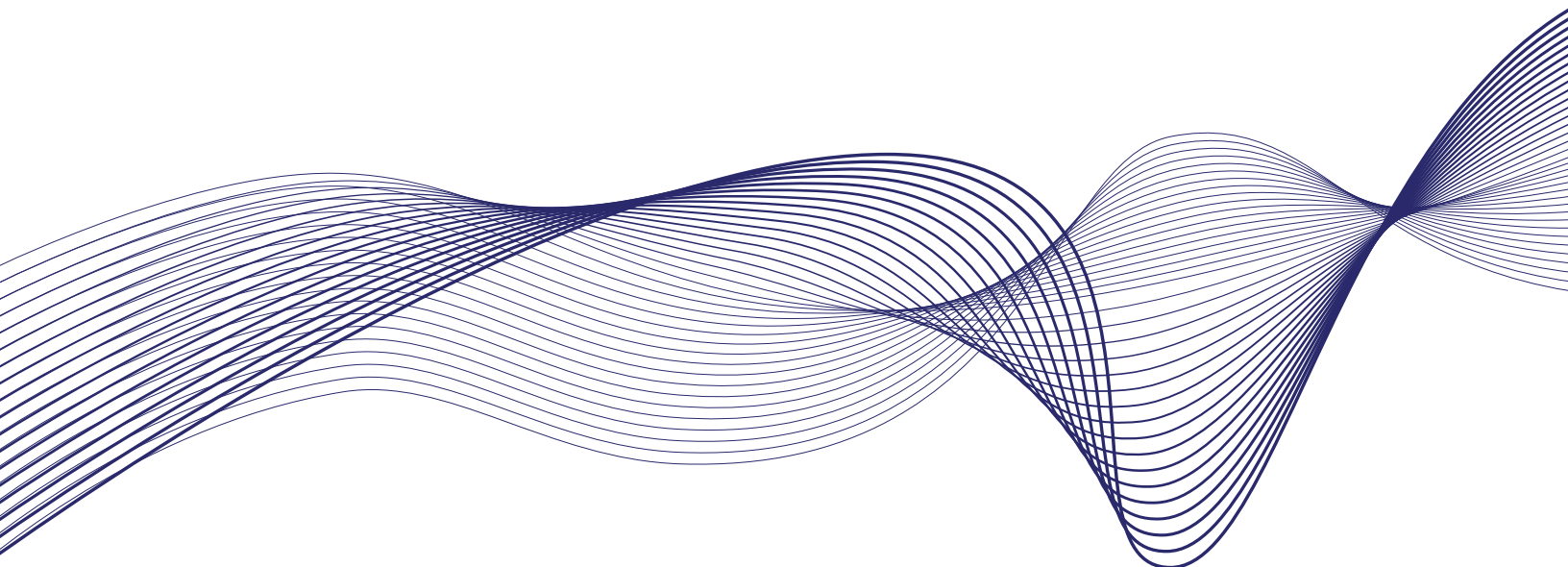


Fostering Digital  
Equity and Inclusion

SMALL BUSINESS IN THE DIGITAL AGE

## **Transforming for global reach:** Small business in the UK

**The COVID-19 pandemic altered the day-to-day lives of nearly everyone and accelerated the trend towards digital commerce. This paper explores the results of a survey of businesses in the United Kingdom (UK) and finds that digital capabilities—in terms of payments, access to online marketplaces, and cross-border reach—are key to small business recovery and resilience.**



## Synopsis

The COVID-19 pandemic altered the day-to-day lives of nearly everyone and accelerated the trend towards digital commerce. This paper explores the results of a survey of businesses in the United Kingdom (UK) and finds that digital capabilities—in terms of digital payments, access to online marketplaces, and cross-border reach—are key to small business recovery and resilience. The UK is already a mature market from the standpoint of digital payments, with many micro, small, and medium enterprises (MSMEs) able to accept contactless and e-commerce payments. Small businesses have also expanded their use of websites, social media, and online marketplaces during the pandemic, and those that are leveraging their own websites plus online marketplaces tend to export to more cross-border markets. Many MSMEs in the UK are interested in deepening their digital transformation in both consumer-facing functions like marketing and sales and internal areas like finance and accounting. They are also open to getting public- and private-sector assistance with these transformation goals. This paper provides four recommendations for further empowering UK small businesses in the digital age.



# **Transforming for global reach:** Small business in the UK



Visa Economic Empowerment Institute





## Acknowledgments

This paper was authored by Chad Harper and Chris Hulm; Visa contributors to the survey, data analyses, and insights included Sonia Brown, Anne Craib, Tania Garcia-Millan, Barbara Kotschwar, Sakina Lavingia, Sandra Lee, Jake Levy, Liam MacDermott, Renny Popoola, Danielle Slater, Kelly Sloane, and Emma Streatfield, as well as Kati Suominen and her team at Nexttrade. For their helpful comments and contributions, we also gratefully thank Jen Swetzoff for editorial assistance and the design team from 451.

## About the Visa Economic Empowerment Institute

The VEEI is a non-partisan center of excellence for research and public-private dialogue established by Visa.

The VEEI's overarching mission is to promote public policies that empower individuals, small businesses, and economies. It produces research and insights that inform long-term policy within the global payments ecosystem. Visa established the VEEI as the next step in its ongoing work to remove barriers to economic empowerment and to create more inclusive, equitable economic opportunities for everyone, everywhere.

Visit: [visaeconomicempowermentinstitute.org](https://visaeconomicempowermentinstitute.org)

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## Executive summary

**Currently, there are about 6 million private-sector businesses in the United Kingdom (UK). Approximately 99 percent of these firms are micro, small, and medium enterprises (MSMEs), which collectively provide over 60 percent of UK employment and over 50 percent of turnover or gross revenues. Microbusinesses, or those employing ten or fewer people, make up the vast majority of these firms—roughly 5.7 million, a figure that has grown substantially over the past decade (Hutton & Ward, 2021). The COVID-19 pandemic has presented several challenges for MSMEs, in part because many small businesses operate in the sectors that were most affected by COVID-19 public health measures, such as tourism, hospitality, transportation, and retail. But technology can play an important role in mitigating some of the pandemic’s effects, as well as more recent challenges that have arisen as a result of, amongst other factors, supply chain pressures and price increases. Recent research has found that firms headquartered in countries with good digital infrastructure performed better than firms elsewhere during the worst of the crisis, and this mitigating effect was especially pronounced for smaller firms (Doerr et al., 2021).**

Government action has proven to be key for many MSMEs in countries studied by the Visa Economic Empowerment Institute (VEEI). This has also been the case in the UK, where the government took a variety of steps to mitigate the effects of the crisis on MSMEs. The UK government has adopted a broad set of support measures to help small businesses not only navigate through the pandemic but recover beyond it. In addition to a range of specific financial support measures, the government's "Help to Grow" programme is designed to assist small businesses in the adoption of productivity-enhancing software and enhance their digital offerings. VEEI's research indicates that this effort to support digitisation addresses the key needs that small businesses themselves have identified.

In late summer 2021—about 18 months after the beginning of the pandemic—VEEI surveyed more than 750 firms (over 85 percent of them MSMEs) in the UK to learn more about the effects of the pandemic on their businesses and their recovery plans.

The survey provided the following insights:

- **Firms suffered in 2020 but had better expectations moving forward.** More than one-third of firms reported negative growth in 2020, and about a half flatlined, reporting zero growth. Micro enterprises fared especially poorly; more than 20 percent of them reported 10 percent or greater revenue declines in 2020. Generally, firms of all sizes expected 2021 to be a neutral or positive year; firms that managed to do well in 2020 expected to also do well in 2021.
- **The biggest COVID-19 impacts were on sales, both domestic and international.** For MSMEs, the majority of challenges experienced in 2020 and 2021 were related to the pandemic's impact on domestic and international sales and purchases. More than 50 percent of micro and small firms reported decreases in sales, and more than one-fifth reported decreases over 20 percent. The impacts of the pandemic reached beyond sales; for medium firms especially, employment was also adversely impacted.
- **MSMEs adopted new payment capabilities during the pandemic.** UK firms reported increasing their adoption of digital payments, albeit at more subdued rates than firms surveyed by VEEI in emerging markets, but that is likely because of the higher pre-COVID-19 base in the UK. Although cards and bank transfers remain the preferred methods of payments acceptance for the majority of medium and large firms and many micro and small firms, the existence of a dynamic and varied payments ecosystem in the UK also enabled increases in the use of mobile payments, established non-card e-commerce providers, and cryptocurrencies. During the pandemic, the share of medium firms accepting mobile payments grew to surpass the share of those firms accepting cash.



- **MSMEs expanded their use of social networks, messaging apps, and marketplaces.** A strong majority of businesses reported having websites, and many said they used social media channels—but even more small and medium firms reported that they planned to start using these channels in 2021-22. These firms also amplified their use of online marketplaces during the pandemic, albeit they were starting from a lower base. There was a pronounced difference in export performance according to which channels were used. In terms of exporting to non-UK markets, firms that sold on their own online stores and on global marketplaces fared the best, while firms that sold online by using only social media typically did not export as much to other countries. When asked about challenges related to exporting via e-commerce, micro and small exporting firms mentioned such issues as compliance with foreign trade rules, tariffs and other border issues, long shipment times, high foreign taxes on online sales, differences in global tax regimes, and customer payment difficulties.
- **Despite digital progress, MSMEs reported a number of ongoing challenges to their recovery, some of which varied by firm size.** In terms of their business needs, the overwhelming majority of MSMEs said they still needed to attract new customers and they needed their existing clients to return; these top needs were followed by needs for securing grants, diversifying their products and services, and exporting to new markets. Medium and large firms also stressed cybersecurity capabilities as a major need, reflecting these firms' more elaborate databases and digital networks. Very small proportions of firms in all size categories wanted more loans, new insurance products, or loan extensions. UK firms, in short, want to get back to business and export.
- **Firms planned to prioritise improving their digital capabilities in sales and marketing.** When asked about their digital transformation plans by subject area, MSMEs reported prioritising digitisation of their sales and marketing capabilities, followed by internal functions including finance and accounting. This reflects UK MSMEs' interest in transacting more seamlessly online with both customers and suppliers. Very few micro and small firms consider themselves to be “very” digitised in these various business areas. When asked about what they needed to carry out their digital transformation plans, firms of all size categories highlighted a need to learn which technologies are ideal; larger firms also noted significant needs for staff capabilities so they could use those technologies, once acquired. Micro and small firms also stressed their needs for financing to enable the introduction of new technology capabilities into their operations.

The UK government has put a number of programmes in place that help address the key challenges identified by the businesses in the VEEI survey. We hope that the survey findings and resulting recommendations summarised below can complement the UK's solid foundation of ideas and initiatives already in play.

### Our recommendations:

1. **Emphasise digital transformation assistance for MSMEs.** In the case of the VEEI study of five developing countries, basic infrastructure such as electricity and broadband was sometimes a barrier to the digital enablement of small businesses (Harper, 2021). That is not the case in the UK, which enjoys a robust digital infrastructure. Although infrastructure itself does not present hurdles, the adoption of some digital capabilities by small businesses is still a work in progress. Many UK MSMEs expressed an interest in improving their digital capabilities. The adoption of digital payment capabilities and the use of online marketplaces are quite well-developed in the UK, but many firms report they still have work to do in these areas. Firms prioritised digitising their marketing and sales, as well as their finance and accounting capabilities, as key steps in their digital transformation.
2. **Keep consumers and merchants in mind when driving payment digital ubiquity.** Payment methods may differ in functionality, convenience, consumer benefits offered, and other characteristics; customer and merchant preferences will often be driven by specific use cases. Therefore, payments need to support the experiences, decisions, and needs of consumers for any transaction. Contactless payment capabilities originated in the card networks, and during the COVID-19 crisis, these touchless payments quickly became the norm in consumer payment behavior thanks to their convenience, security, and low fraud rates. Their adoption has been especially high in the UK, where contactless now accounts for 75 percent of all in-personal Visa transactions for small businesses.
3. **Prioritise cybersecurity education and capabilities for small businesses.** As the digital payments landscape continues to evolve in response to changing business and consumer priorities, fraudsters are increasingly engaged in finding new avenues to exploit. Larger firms in the survey were more likely to report interest in enhancing their cybersecurity capabilities; fewer micro and small firms said cybersecurity capabilities were a need, but they may be unaware of the increasing importance of these capabilities as they digitally transform their business models and practices.
4. **Help small businesses scale and globalise through leveraging e-commerce capabilities.** Our survey results indicate that many small businesses in the UK are taking advantage of the multiplier-market effects of digital trade. Keeping markets open for the cross-border movement of goods, services, and data is an essential part of building, maintaining, and expanding a pro-small business environment. Interoperability, especially regulatory interoperability, is key to allowing effective digital business across borders (Kotschwar & Suominen, 2021). Surveyed small businesses reported several barriers related to navigating the complexities of cross-border e-commerce, and the public and private sectors should partner to provide training and reduce frictions.

We are pleased to contribute these recommendations to the extensive thinking already taking place within government and across the UK ecosystem, in order to better enable small businesses to thrive through levelling up opportunity across the UK, and to unlock the global potential of British small business.



# Introduction

The COVID-19 pandemic has impacted economic activity worldwide, and its long-term effects are still unfolding. For example, by nature of their size, small businesses are simply more vulnerable and less resilient to shocks than large firms. Additionally, many MSMEs operate in the sectors that were most affected by public health measures: tourism, hospitality, transportation, and retail.

In this paper, we begin by providing context on the importance of small businesses to the United Kingdom (UK). We then examine the business and commercial environment of the UK, using a combination of publicly available data and Visa transactional data. Next, we investigate the rise of digital capabilities in the country, as well as local business and consumer expectations. Finally, we turn back to small businesses more specifically, looking at the effects of the pandemic and the various public-sector initiatives enacted to help them.

In order to understand how small businesses have responded to the crisis and what they need if they are to survive the various challenges presented by it, the Visa Economic Empowerment Institute (VEEI) surveyed more than 750 firms in the UK in September 2021, nearly a year and a half after the onset of the pandemic. The results of that survey are the main topic of this paper and drive its recommendations.

In fielding the survey in the UK, the VEEI set out to answer these questions:

- What difficulties did the COVID-19 crisis cause for MSMEs, and how did they respond?
- How has the pandemic continued or accelerated certain trends, especially the reliance on e-commerce marketplaces and digital payments?
- What do MSMEs need to survive, thrive, and be resilient to future shocks?
- What are MSMEs prioritising in their digital transformation planning, and what do they need in order to carry out their plans?

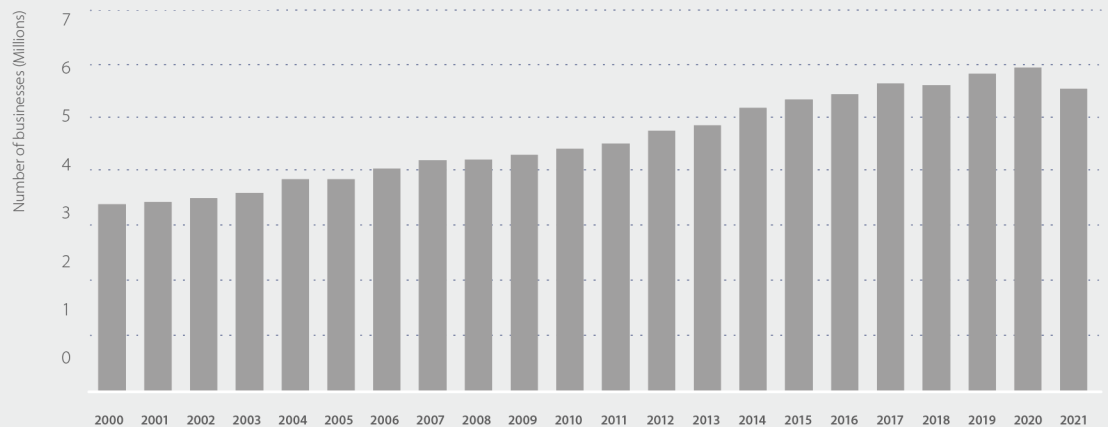
We conclude this paper with some suggestions for how the public and private sectors can collaborate to help MSMEs weather this crisis and to become more resilient to future shocks in an increasingly digital and connected era.

# The importance of MSMEs in the United Kingdom

By the end of 2020, there were roughly 6 million private sector businesses in the UK, up 112,700 from 2019 and 2.5 million from 2000 (Hutton & Ward, 2021). Roughly half of UK businesses are in London or the South East (2.1 million in London and 940,000 in the South East). By contrast, Northern Ireland has 148,000 businesses, the fewest of any country or region in the UK.

**Figure 1: Private-sector businesses in the UK, 2000-2021 (millions)**

See Annex 2 (page 42) for more information



Source: BEIS, Business Population Estimates, 2021

The UK government usually defines an MSME as any business employing 250 or fewer people. Currently, of the approximately 6 million MSMEs in the UK, 5.7 million are microbusinesses employing ten or fewer people—a figure that has grown substantially over the past decade. This growth may be set to continue, as 25 percent of UK consumers said they had shopped at more locally owned businesses in 2021, according to the fifth edition of Visa’s (2021) Back to Business Study.

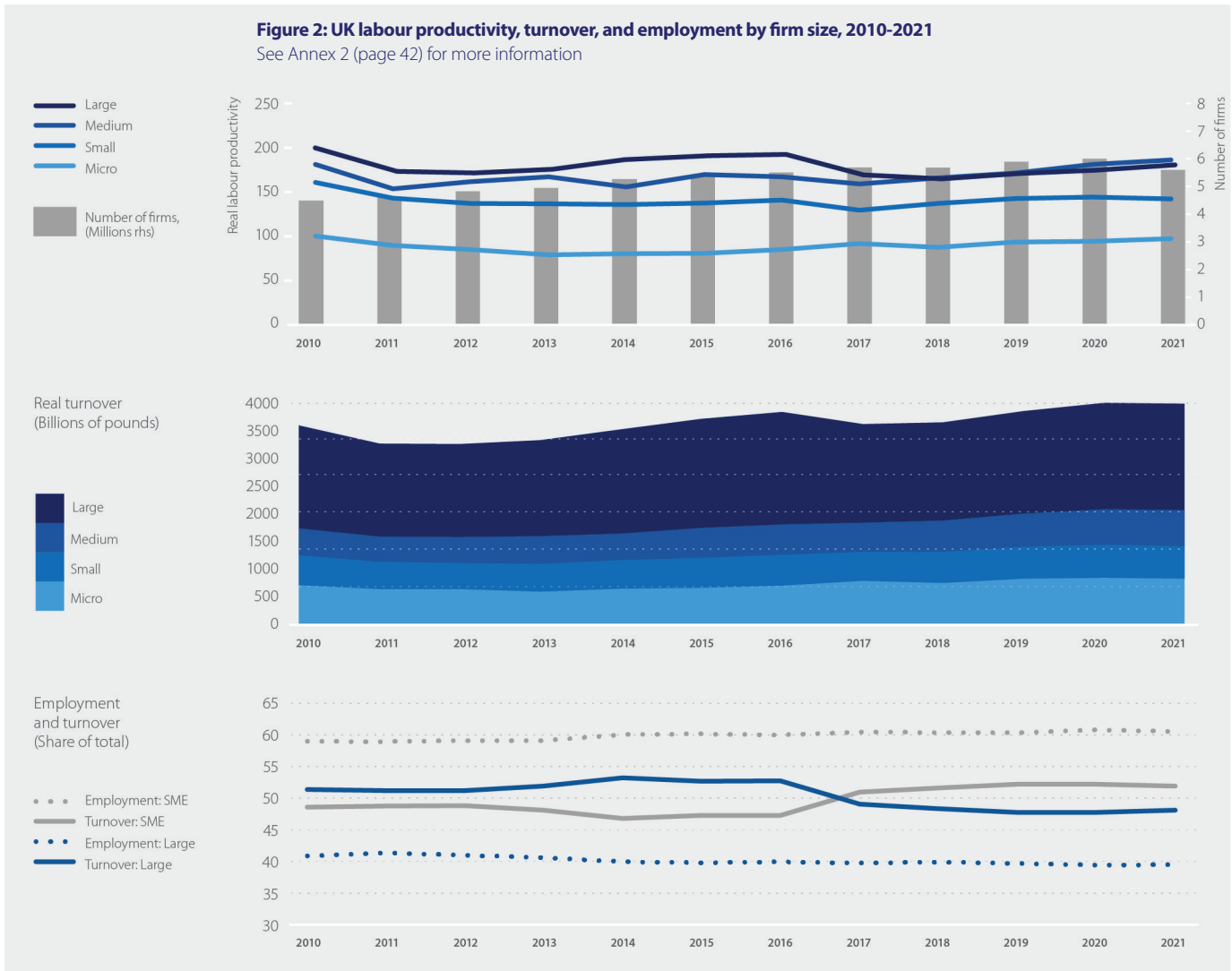
In the private sector, according to the Department for Business, Energy, & Industrial Strategy, as of 2020 MSMEs made up:

- 99 percent of UK businesses
- 61 percent of UK employment
- 52 percent of UK turnover (also known as gross revenue)

As a result, MSMEs substantially contribute to UK GDP, the training of skilled workers, and the UK's competitive landscape. There is also a segment of businesses within the MSME group—particularly startups—that contribute towards early adoption of technology in the UK, helping to shake up the economy and generate competition.

**Figure 2: UK labour productivity, turnover, and employment by firm size, 2010-2021**

See Annex 2 (page 42) for more information



Source: BEIS, Business Population Estimates, 2021

Before turning our attention to the specific issues and challenges experienced by MSMEs in the UK, we need to understand the general UK commercial context.

# UK commerce in the digital age

## UK digital infrastructure is robust

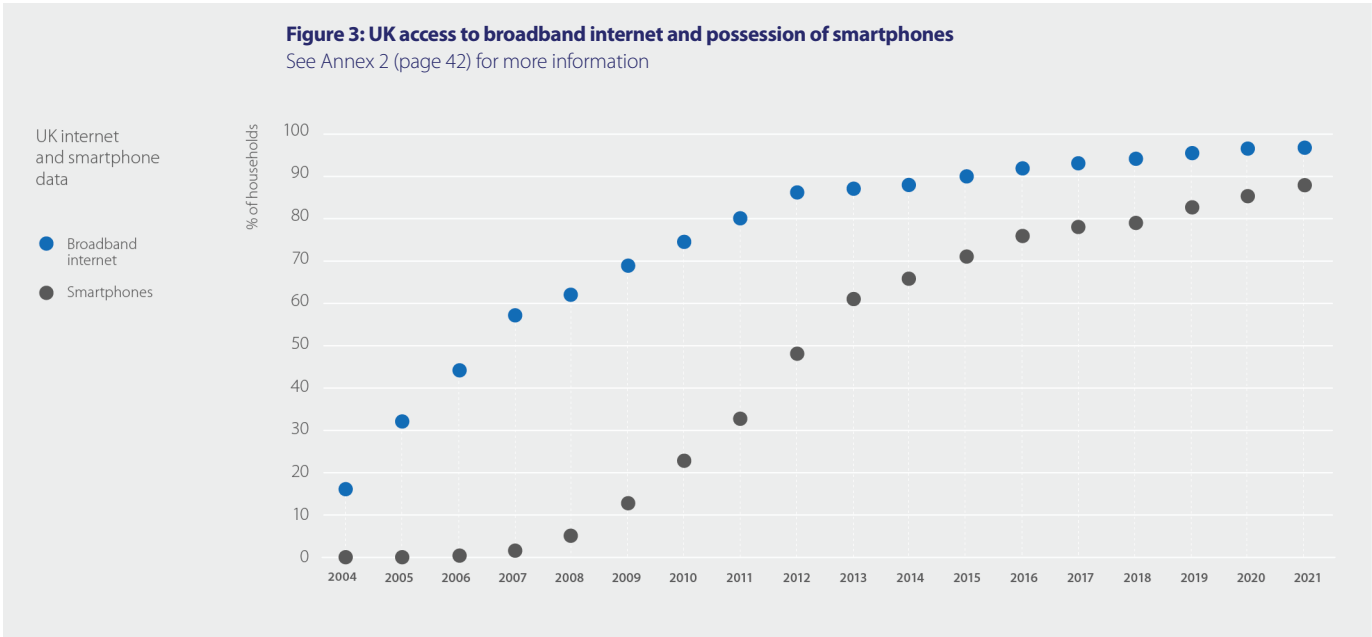
The VEEI's study of five developing countries found that basic infrastructure such as electricity and broadband was sometimes a barrier to the digital enablement of small businesses (Harper, 2021). But the UK has a robust digital infrastructure, and households are well-equipped for e-commerce and digital payments. This is a big advantage for UK small businesses, given that recent research from the Bank for International Settlements has found that businesses headquartered in countries with strong digital infrastructure performed better in the pandemic than others, especially if they were small businesses (Doerr et al., 2021).

The figure below shows the trajectories of broadband access and smartphone possession in the UK over the last two decades. The country's broadband access grew to include 96.5 percent of households by 2020; smartphone possession also increased rapidly, with 85.5 percent of households possessing at least one smartphone by 2020.

The proliferation of both broadband access and digital devices, including smartphones, has enabled consumers to fully engage with digital commerce.

**Figure 3: UK access to broadband internet and possession of smartphones**

See Annex 2 (page 42) for more information



Source: Euromonitor Passport data

## Many small businesses have gone digital to stay afloat and to meet consumer expectations

Lockdowns during the COVID-19 pandemic obviously accelerated the need for small businesses to go digital, but many were already building digital capabilities alongside the UK's efforts to improve its digital infrastructure. In fact, in response to the first lockdown, Goldman Sachs (2020) found that over one-third (39 percent) of small businesses adapted their business model to keep trading, and roughly 73 percent of small businesses identified development of digital infrastructure as their top priority.

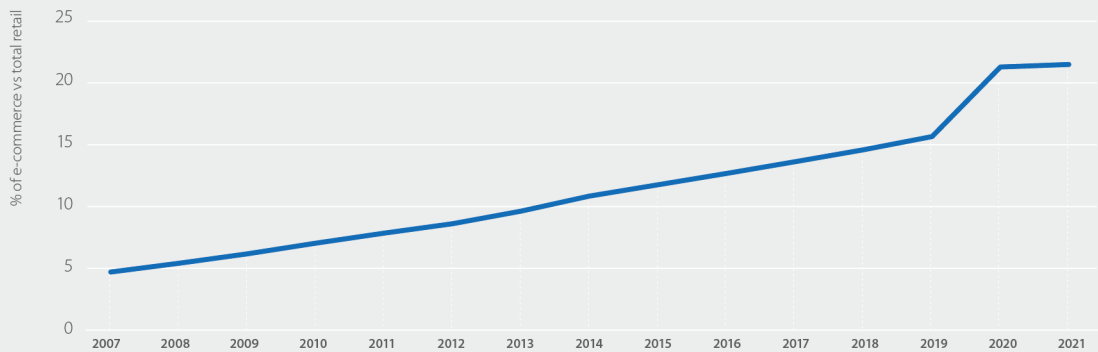
### E-commerce becomes essential

E-commerce accelerated globally during the pandemic, and the UK was no exception. In 2020, 49.4 million adults in the UK bought goods and services over the internet, up from 48 million in 2019, according to Euromonitor International (2021) Passport data. Lockdowns during 2020 not only resulted in more people shopping online, but also increased their frequency of online shopping. In 2020, 86 percent of those shopping online did so at least once a month (compared to 80 percent in 2019); 58 percent did so at least once a fortnight, up from 46 percent in 2019 (UK Finance, 2021). While overall retail sales declined in 2020, e-commerce sales took their biggest leap ever to account for over 20 percent of retail activity, making the UK one of the most mature e-commerce markets in the world. A historical view of UK e-commerce trends is shown in the following figure from Euromonitor.

**Figure 4: UK e-commerce as a percentage of retail, trends**

See Annex 2 (page 42) for more information

UK e-commerce as a percentage of retail



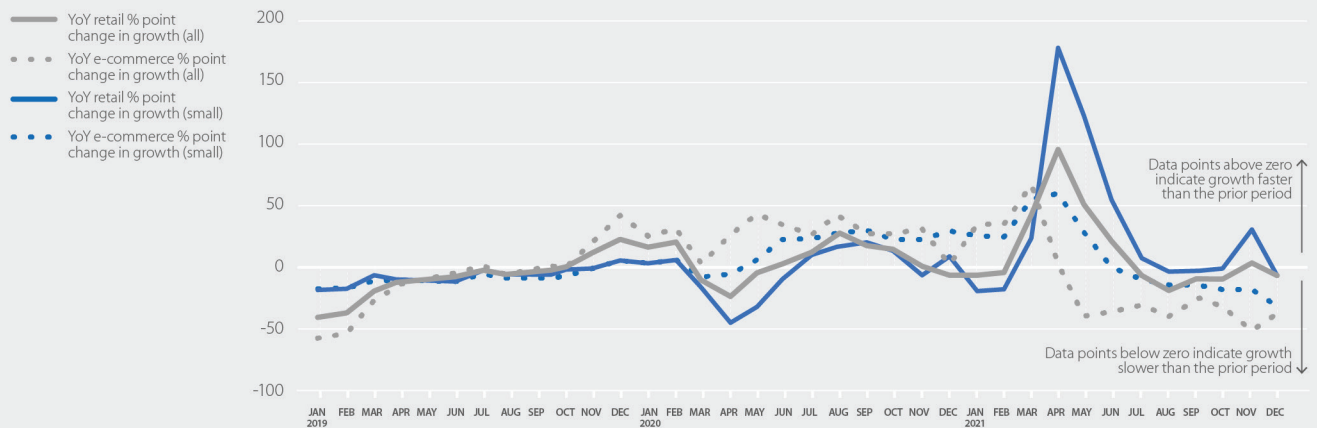
Source: Euromonitor Passport data

These trends are borne out by Visa's internal data. The next figure is derived from Visa transactional data for UK businesses over the last three years. It depicts monthly year-over-year (YoY) percentage point change in growth rates for retail sales and e-commerce sales for all businesses, and specifically for small businesses. Values near zero reflect little change in growth rates from the same month of the previous year, positive values reflect a greater growth rate than in the previous year, and negative values reflect less growth than the year before. As can be seen in the data, the solid lines depicting overall retail activity for both all firms and small firms were relatively close to zero, reflecting steady growth trends, until spring of 2020, when the negative effects of the pandemic can be seen. There is then a strong upward trend in spring 2021, reflecting a rebound of stronger growth compared to growth in the year before. E-commerce trends represented by the dashed lines show a different pattern. E-commerce grew strongly during the pandemic compared to the previous period, and when overall retail activity rebounded, e-commerce grew more slowly than in the year before. In both downturns and upturns, the total retail sales trend lines for small businesses are steeper—indicating a more pronounced change.



**Figure 5: A look at UK retail activity from Visa data (monthly YoY percentage point change in growth)**

See Annex 2 (page 43) for more information



Source: VisaNet Data

Additionally, Visa data shed light on the percentage of businesses that actively participate in e-commerce activities. Visa’s information shows that after the onset of the pandemic, UK businesses scaled up their ability to accept “card not present” card payments (e-commerce payments). According to VisaNet data, 62 percent of all Visa-enabled UK businesses and small businesses were actively accepting remote or e-commerce payments in February of 2020. By the end of September 2021, 70 percent of all Visa-enabled businesses—and the same percentage of small businesses—were accepting these payments. The UK was already a mature e-commerce market before the pandemic, but the crisis still led to a more than 12 percent increase in the number of businesses participating in remote card use. In a November 2020 consumer sentiment study, the consulting firm McKinsey & Company reported that “the majority of UK consumers said they intended to continue some of their new shopping behaviors post-pandemic”; the biggest shift in consumer behaviour was a shift to online purchasing (Kassim-Lakha et al., 2020).

### Contactless payments become the new normal

Despite this notable shift towards e-commerce, the majority of transactions are still face-to-face. Digital solutions are also key to meeting pandemic-era consumer expectations in the form of contactless payments, and businesses large and small have equipped themselves to accept contactless payments for in-person transactions. By 2020, 53 percent of all consumer card payments were made using a contactless card (UK Finance, 2021). This was enabled in part by the contactless limit increase by the industry from £30 to £45 at the start of the pandemic. Sixty-two percent of consumers surveyed by UK Finance (2020) said the move to £45 in April 2020 was the most popular industry COVID-19 action taken. As of August 2021, VisaNet data reflected that 75 percent of Visa in-person transactions among small businesses were contactless, and the proportion is 86 percent for small business transactions in the “food and grocery” merchant segment. In October 2021, the contactless limit was raised from £45 to £100 by the industry, following legislative change by the UK Government, reflecting the continuing comfort with and popularity of contactless payments among consumers and merchants. Even when consumers are engaging in face-to-face interactions, many are engaging in purchasing behaviour that combines in-person and e-commerce behaviour; Ernst & Young LLP recently found that over 70 percent of UK consumers are “mixing online and in-store purchases for major shopping events,” and over a quarter are ordering online and picking up their purchases in person (Rindone & MacSweeney, 2022).

# MSMEs and the pandemic

## Small business digitisation has been a priority

Recognising the importance of enabling contactless and digital payments, among other new technological advances, the UK government continues to support MSME digitisation. In particular, digitisation is an integral part of the government's Levelling Up agenda, it complements the government's national data strategy, and supports the findings of the Kalifa Review of UK Fintech, which highlights digital trade as an area in which the UK can lead globally.

Most recently, the UK government is hoping to drive MSME digitisation through its Help to Grow initiative. This is a new UK-wide scheme to help 100,000 MSMEs save time and money by adopting productivity-enhancing software, transforming the way they do business. This initiative combines a voucher covering as much as half of the costs of approved software up to a maximum of £5,000, and free impartial advice, delivered through an online platform. Surveys such as the 2020 COVID-19 impact survey conducted by Goldman Sachs indicate that "the overwhelming majority of small businesses have accessed government support, and [...] 98% say it had a positive impact."

## The pandemic hits the smallest businesses hardest

These government support initiatives were adopted as the unprecedented magnitude of the recession caused by the pandemic became clear. UK GDP declined by 9.8 percent in 2020, the steepest drop since the government began keeping consistent records in 1948 and the most in more than 300 years by some estimates (Harari & Keep, 2021).

During the first lockdown in April 2020, UK GDP was 25 percent lower than it was in February of the same year. But then, economic activity picked up over the spring and summer of 2020, as the economy began to reopen. However, the subsequent rise in COVID-19 cases and further lockdowns during the autumn and winter led to further economic decline.

This decline was much less severe than during the first lockdown, as consumers and businesses had adapted over the previous year. The strong recovery in spring and early summer 2021 caused GDP to rebound, and by July 2021 it was only 2 percent lower than pre-pandemic levels.

In the UK, as in most other places, the pandemic affected different sectors of the economy to different degrees. Sectors reliant on social contact, including hospitality and entertainment, have been especially badly hit. Sectors less reliant on in-person contact, like financial services, have fared better. Although MSMEs as a group were hit harder than larger businesses, they have been quite agile in adopting new capabilities and in adapting to new realities.

**The UK government has taken action to promote MSME recovery and resilience**

As of March 2022, the OBR forecast for GDP growth in 2022 was 3.8 percent. This was a significant decrease from predictions in October 2021 of 6 percent growth and is based on unusually high economic uncertainty following supply chain pressures, energy prices, Russia’s invasion of Ukraine, and the corresponding effects on inflation. The OBR stood by its October estimate that economic “scarring” from the pandemic would lower the level of GDP by 2 percent compared to what it would have been without the pandemic, as opposed to the 3 percent drop estimated in March 2021.

According to Simply Business research published in June 2021, COVID-19 will cost MSMEs an estimated £126.6 billion—double what owners predicted it would cost them when asked a year before. Some industries have been hit particularly hard, especially the hospitality industry. During lockdown, pubs, cafes, and restaurants were forced to close or severely restrict the services they could provide. The pandemic has cost pub and restaurant owners £40,313 on average, with total average losses expected to reach £45,470. The severity of the impact also differs by region. After London, the hardest hit regions of the UK were Scotland and the North East. Average pandemic losses for MSMEs in London were £5,000 greater than the national average, while losses in Scotland and the North East were £3,000 greater (Simply Business, 2021). That said, businesses have been cautiously optimistic about the future; a survey from McKinsey & Company conducted in late 2020 suggested that the outlook for UK MSMEs was improving (Dimson & Sharma, 2021).

As of September 2021, the UK government had spent approximately £261 billion across its various COVID-19 measures, of which £129 billion was in the form of loans and loan guarantees from the Bank of England. In total there are £370 billion of coronavirus-related costs for which the government is responsible (National Audit Office, 2021). Meanwhile the OBR estimated in March 2022 a total cost of £310 billion, a slight decrease from its October 2021 estimate of £315 billion.

The majority of the government’s efforts to help businesses focused on furlough schemes, business loans, and tax deferrals, summarised in the table below:

### Summary of government efforts to help MSMEs

TAX, SPENDING, AND SUPPORT MEASURES	LOANS AND GUARANTEES	EMPLOYMENT AND DEVELOPMENT
<ul style="list-style-type: none"> <li>• Small business grant schemes</li> <li>• Business rates relief</li> <li>• VAT deferral</li> <li>• VAT exemptions on PPE</li> <li>• Import duty exemptions on medical products</li> <li>• Income tax deferral</li> <li>• Help to Grow (Digital)</li> </ul>	<p>The government put forward several loan schemes aimed at businesses of different sizes, including:</p> <ul style="list-style-type: none"> <li>• Coronavirus Business Interruption Loan scheme (CBILs)</li> <li>• Coronavirus Large Business Interruption Loan scheme (CLBILs)</li> <li>• Bounce Back Loan scheme (BBLs)</li> <li>• COVID Corporate Financing Facility</li> <li>• Support for startups (Future Fund and Innovate UK)</li> </ul>	<ul style="list-style-type: none"> <li>• Coronavirus job retention scheme</li> <li>• Self-employed income support schemes</li> <li>• Help to Grow (Management)</li> </ul>

Source: Visa/VEEI research

Large numbers of MSMEs claimed financial support from the UK government in 2020. According to McKinsey & Company research, 46 percent of MSME respondents in a November 2020 survey said they had applied or planned to apply for the national government’s furlough plan, and 41 percent said they had applied or planned to apply for government loans (Dimson & Sharma, 2021).

The UK has a robust digital infrastructure and had already seen a rise in the comparative importance of e-commerce; this trend was dramatically accelerated by the pandemic. The pandemic also accelerated the adoption of contactless payments for those still made in person, and businesses and consumers expect that adoption to hold. Against this backdrop of digital adoption and government pandemic recovery efforts, VEEI surveyed UK small businesses in the summer of 2021 to understand how they were faring and what needs they still had in pursuing their recovery.

# The VEEI survey of the UK's small businesses provides several key insights

VEEI and Nextrade Group partnered to design and field an online survey of MSMEs in August and September 2021. The survey was conducted to help answer several questions:

- What difficulties did the COVID-19 crisis cause for MSMEs, and how did they respond?
- How has the pandemic continued or accelerated certain trends, especially the reliance on e-commerce marketplaces and digital payments?
- What do MSMEs need to survive, thrive, and be resilient to future shocks?
- What are MSMEs prioritising in their digital transformation planning, and what do they need in order to carry out their plans?

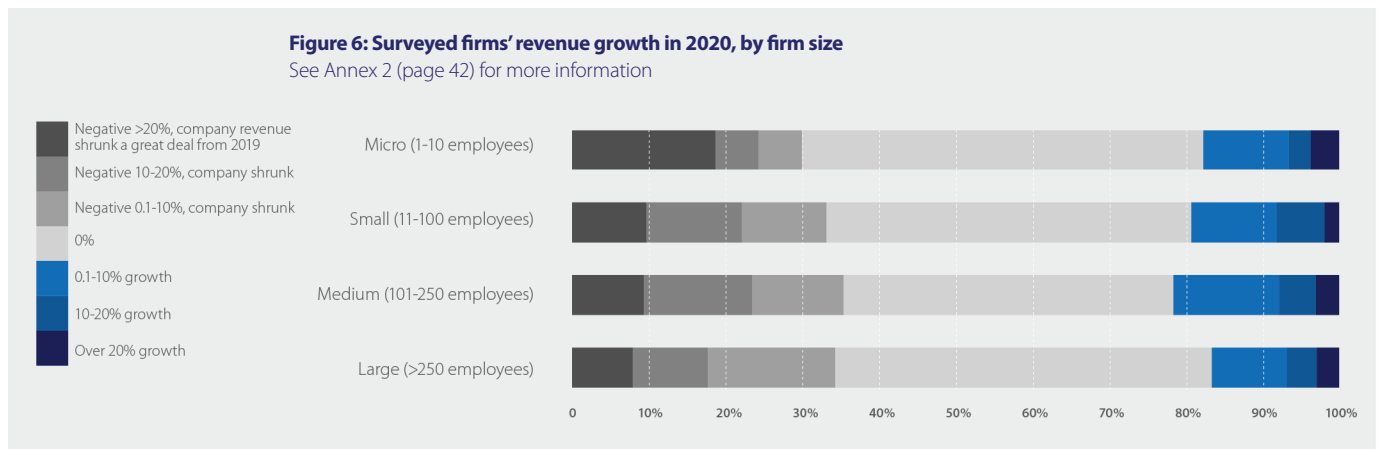
The survey obtained responses from 764 firms in more than 15 business sectors. Fifteen percent of respondents were micro enterprises (1-10 employees), 28 percent were small (11-50 employees), 44 percent were medium (51-250 employees), and 14 percent were large (more than 250 employees). See Annex 1 for more detail on the size breakdown of responding firms, the age of the firms, and the business sectors represented. Although large firms were not the focus of the study, there are occasional insights and comparisons involving large firms that are useful, and those are called out when they are applicable.

## Firms suffered in 2020 but had better expectations moving forward

More than one-third of firms reported negative growth in 2020, and about a half flatlined, reporting zero growth. Micro enterprises fared especially poorly; more than 20 percent of them reported 10 percent or greater revenue declines in 2020.

**Figure 6: Surveyed firms' revenue growth in 2020, by firm size**

See Annex 2 (page 42) for more information

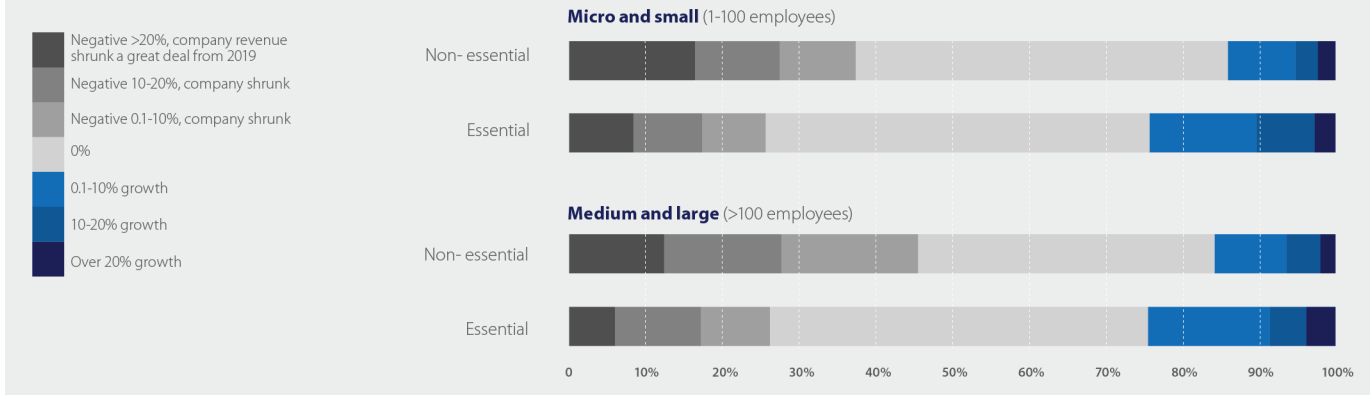


Source: VEEI Survey of Businesses in the UK, 2021

Firms that were deemed essential in 2020 did notably better, however, than firms that were not deemed essential. (Firms self-reported in the survey as to whether they were essential, according to UK government guidance.)

**Figure 7: Surveyed firms' revenue growth in 2020, by firm size and essential designation**

See Annex 2 (page 43) for more information

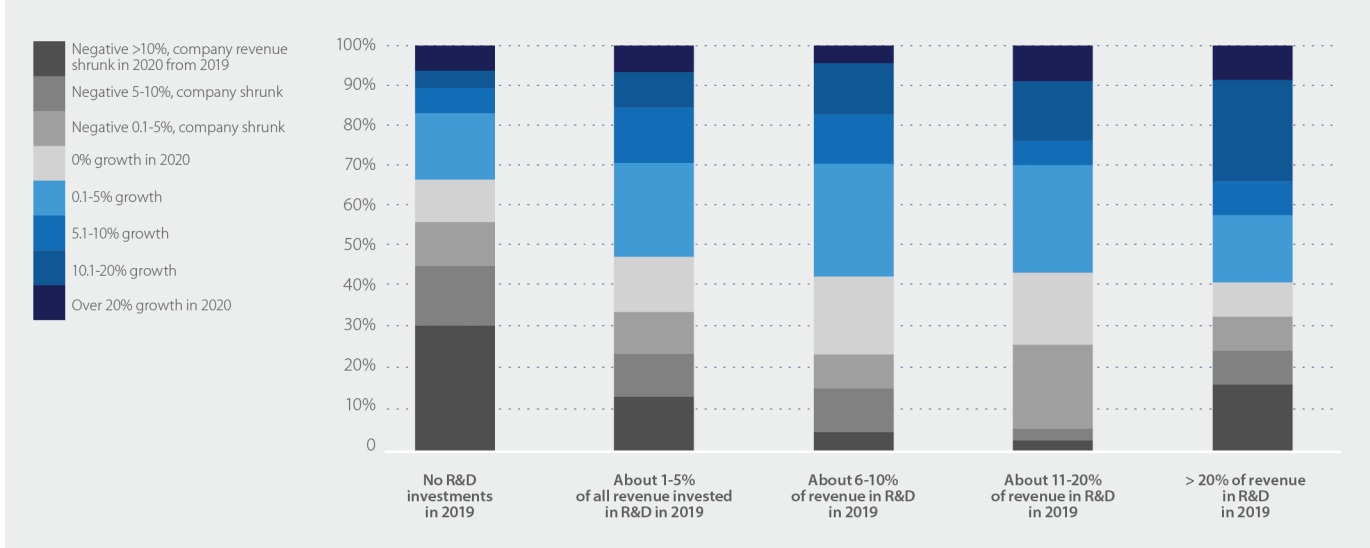


Source: VEEI Survey of Businesses in the UK, 2021

Firms that invested more in R&D in 2019 also did better during the ensuing pandemic than those that invested less, though the positive results at the highest R&D levels become less clear-cut, with both positive and negative 2020 outcomes reported.

**Figure 8: Surveyed firms' revenue growth in 2020, by 2019 R&D investment**

See Annex 2 (page 43) for more information

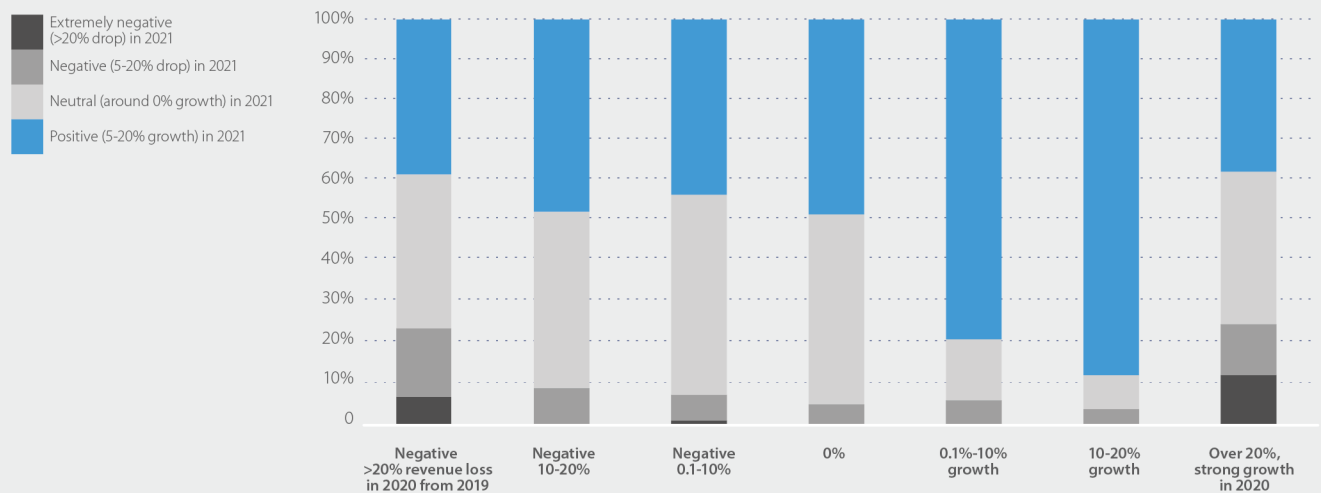


Source: VEEI Survey of Businesses in the UK, 2021

Nonetheless, firms that grew in 2020 also expected to do well in 2021, overall forecasting 5-20 percent revenue growth and even stronger employment gains for 2021. Exporting and R&D investments (essentially, innovation), also correlate heavily with growth. The strong correlation between exporting and growth has been documented by a recent study conducted by National Westminster Bank (NatWest, 2021), which noted that “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.” NatWest’s survey had similar findings regarding innovation, showing that there was a “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.”

**Figure 9: Surveyed firms’ expected revenue growth in 2021, by 2020 performance**

See Annex 2 (page 43) for more information



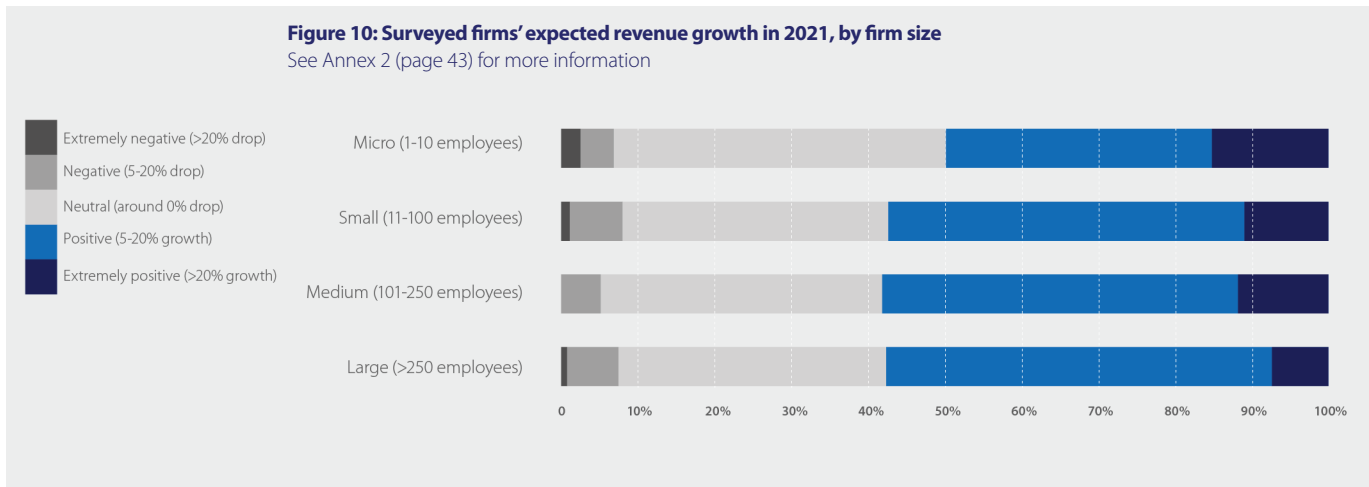
Source: VEEI Survey of Businesses in the UK, 2021

Firms that grew more than 20 percent in 2020 relative to 2019 were not as optimistic about repeating that performance. Generally, though, firms that did well in 2020 had better outlooks for 2021.

Contrary to the results of the previous VEEL survey of five developing countries, UK businesses were rather uniform in their outlooks for 2021 relative to firm size. As the following figure shows, there was little difference in outlook between small, medium, and large firms. Micro firms were somewhat less likely to expect growth in general, but a few more of them expected strong growth, when compared to the other firms.

**Figure 10: Surveyed firms' expected revenue growth in 2021, by firm size**

See Annex 2 (page 43) for more information



Source: VEEL Survey of Businesses in the UK, 2021

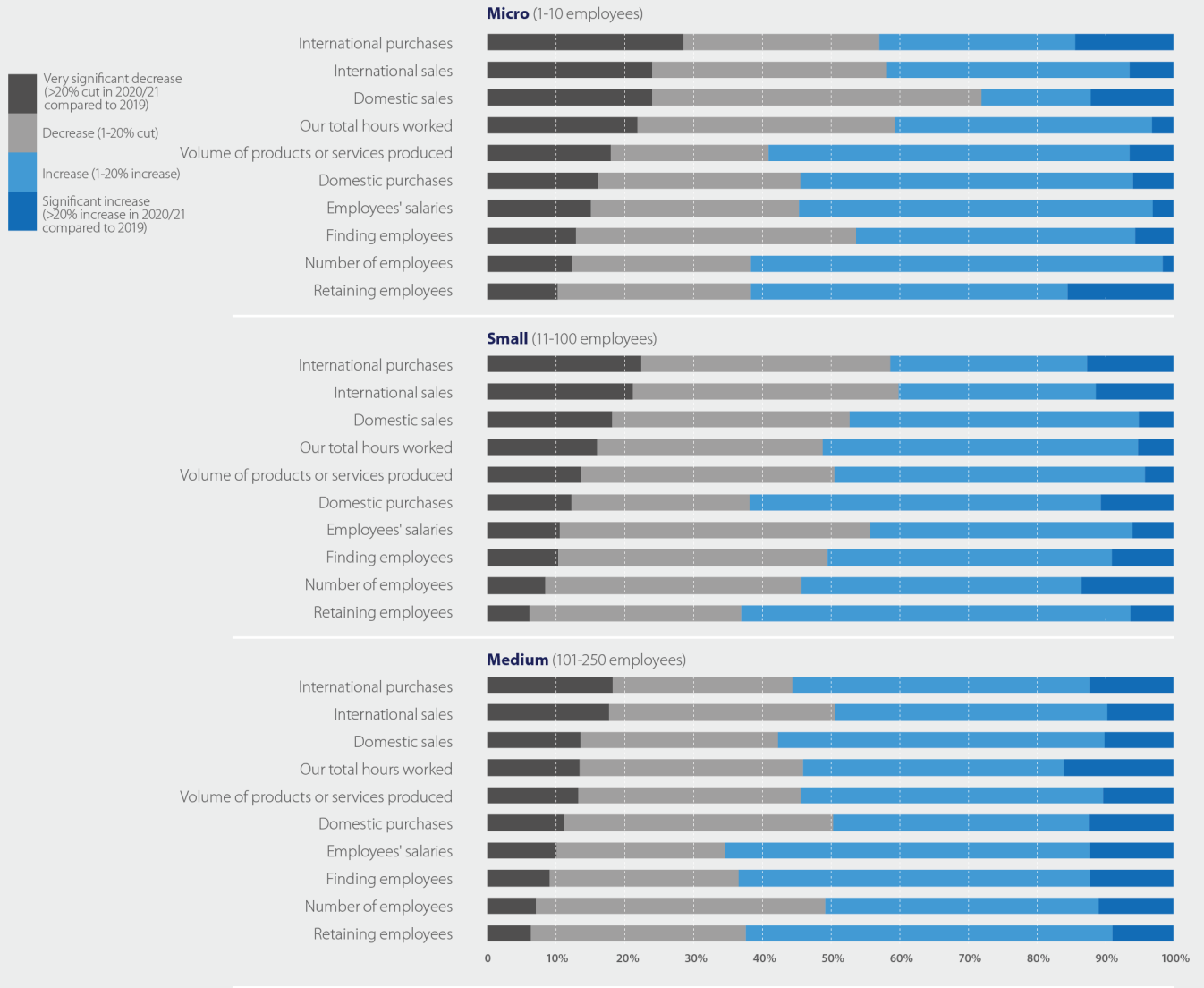
## The biggest COVID-19 impacts were on sales, both domestic and international

The majority of challenges MSMEs experienced in 2020 and 2021 were related to the pandemic's impact on domestic and international sales and purchases, and, especially for medium firms, employment. More than 50 percent of micro and small firms reported decreases in sales; more than one-fifth reported decreases over 20 percent. Micro and small firms also highlighted the volume of goods and services produced as dropping, perhaps due to both demand and supply shocks. More than 40 percent of micro and small firms and more than 50 percent of medium and large firms increased hours worked, reflecting efforts to make more use of their smaller staff and turn their businesses around. Large firms fared better overall: Fewer than 20 percent of large firms experienced very significant declines in their sales and purchases and client bases.



**Figure 11: Surveyed firms' damage assessment of COVID-19 on key performance indicators, by firm size**

See Annex 2 (page 44) for more information



Source: VEEI Survey of Businesses in the UK, 2021

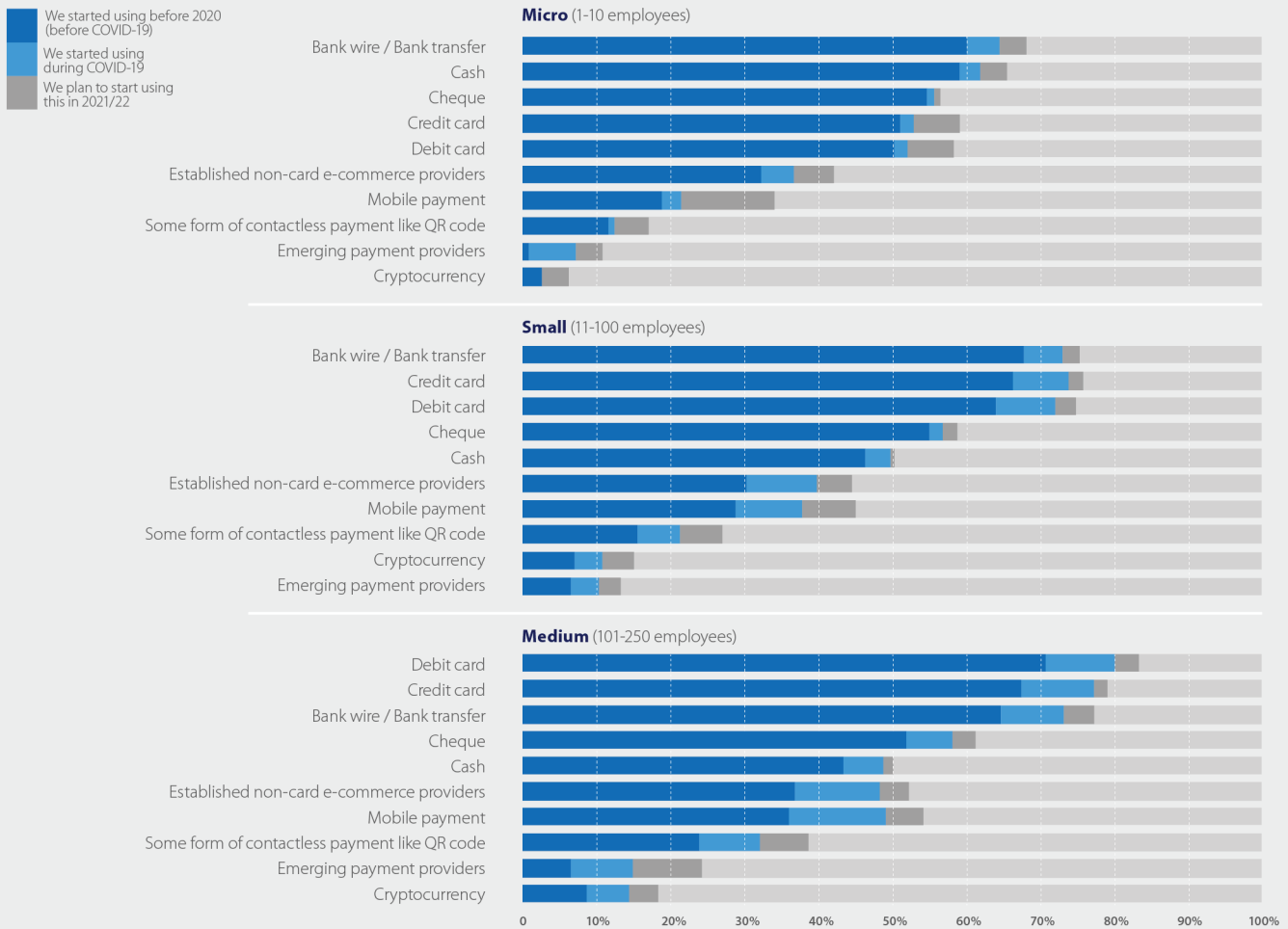
### MSMEs adopted new payment capabilities during the pandemic

In terms of adoption of new capabilities, UK firms reported increasing their acceptance of digital payments, albeit at more subdued rates than firms surveyed by VEEI in emerging markets. This is likely because of the higher pre-COVID-19 acceptance rates in the UK. Cards and bank transfers remain the main methods of payments acceptance for majorities of medium and large firms and pluralities of micro and small firms, and substantial shares of medium and large firms amplified their acceptance of cards during COVID-19.

Despite starting from a strong base, the acceptance of mobile payments, established non-card e-commerce providers, and cryptocurrencies continued to grow especially vis-à-vis pre-crisis levels, with mobile payments nearly surpassing the share of medium and large firms accepting cash. In international acceptance, e-commerce payment firms gained new ground among UK firms. These shifts coincide with what McKinsey & Company has reported was an overall 8 percent decline in cash payments in the UK in 2020 (Bruno, 2021); that same report noted that the use of instant payments in the UK grew 17 percent, often “in support of contactless/wallets and e-commerce.” The next two figures offer more detail on digital payment trends reported by MSMEs, for both domestic and international sales.

**Figure 12: Surveyed firms’ use and adoption of payment methods from domestic customers in response to COVID-19, by firm size and method**

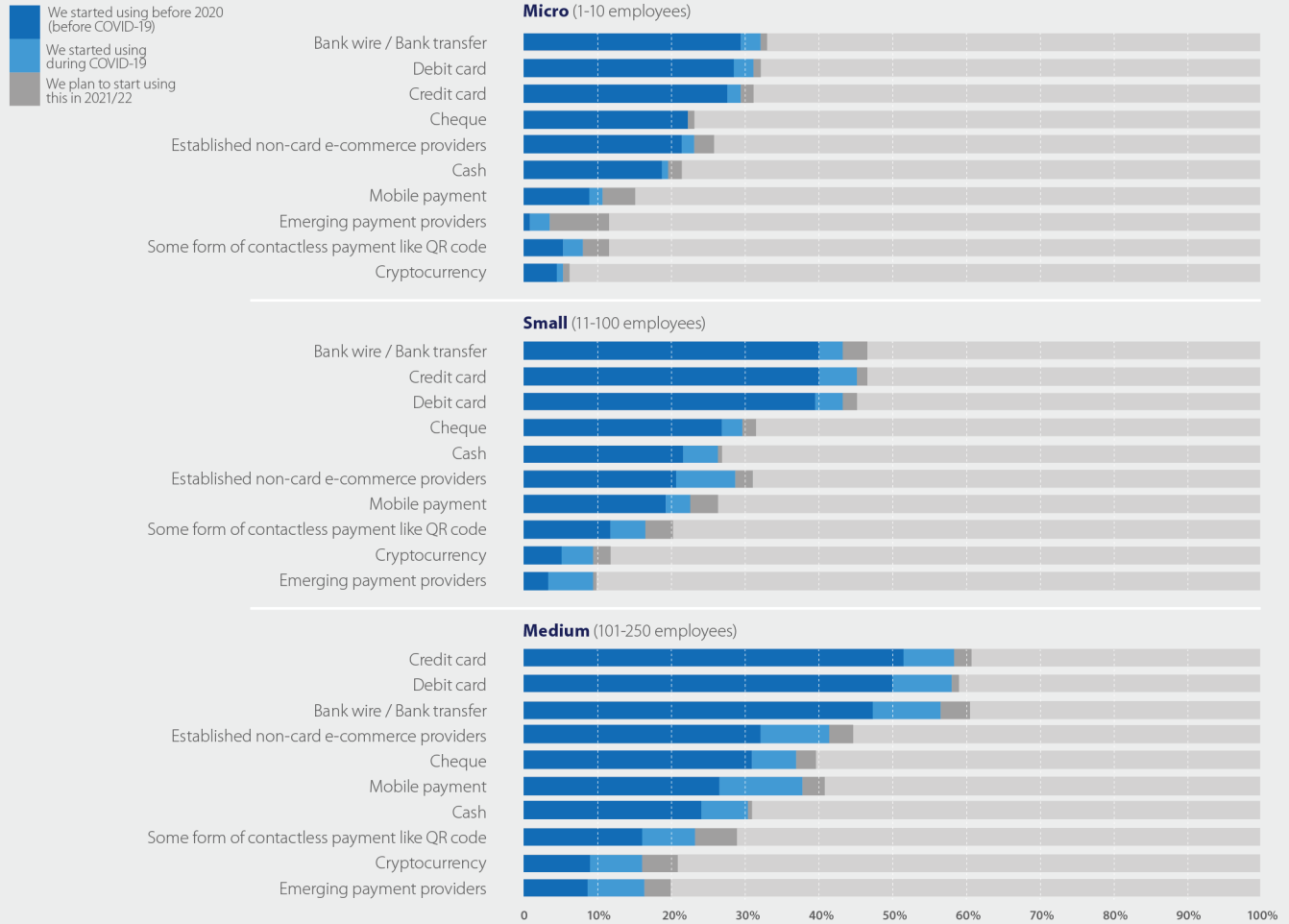
See Annex 2 (page 44) for more information



Source: VEEI Survey of Businesses in the UK, 2021

**Figure 13: Surveyed firms' use and adoption of payment methods from international customers in response to COVID-19, by firm size and method**

See Annex 2 (page 44) for more information



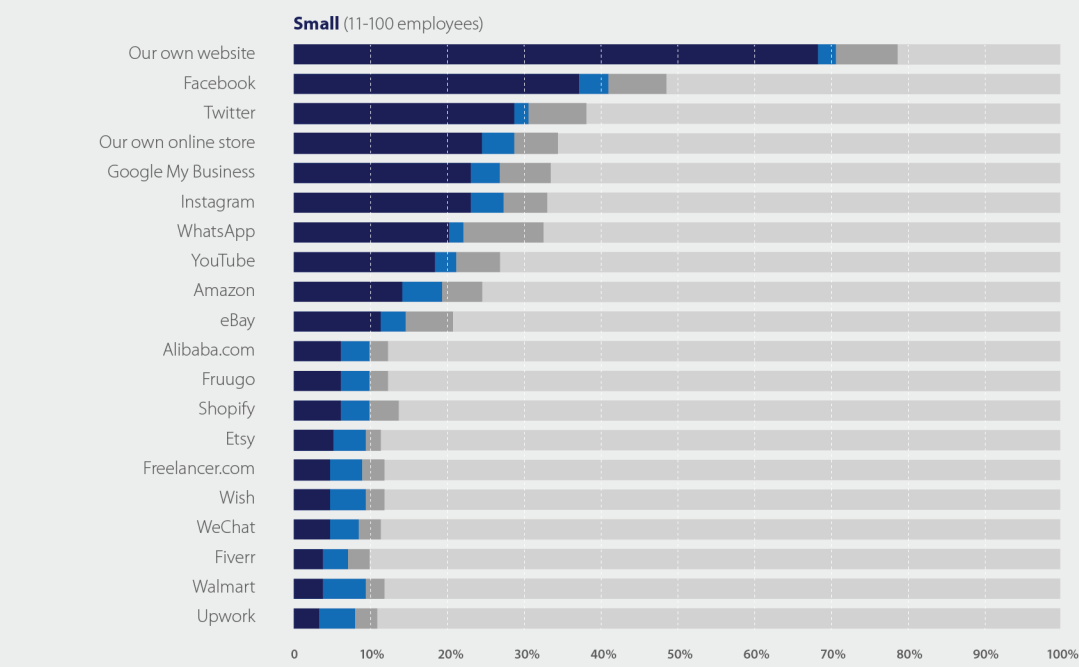
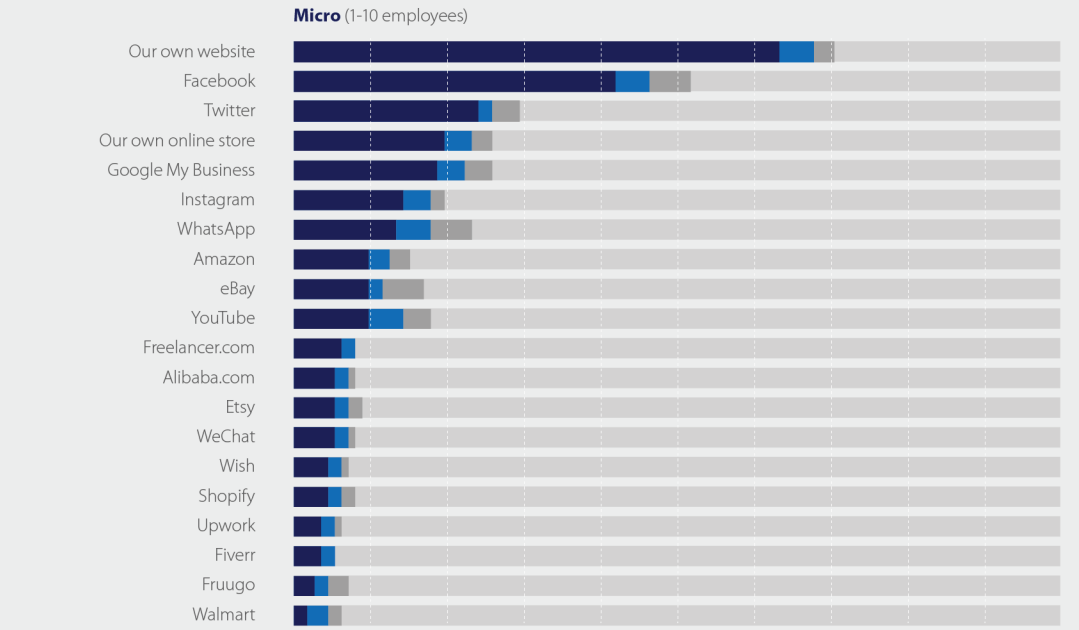
Source: VEEI Survey of Businesses in the UK, 2021

### MSMEs also expanded their use of social networks, messaging apps, and marketplaces

A strong majority of businesses have websites today, and many use social media channels—but even more small and medium firms reported that they planned to start using these channels in 2021-22. These firms also amplified their use of marketplaces like eBay, Etsy, and Upwork during the pandemic, although admittedly starting from a lower base. Overall, the crisis appears to have sparked more interest in using online platforms and marketplaces, especially among small and medium firms, to interact and transact with their customers. In a recent poll of senior decision makers in British small and medium enterprises conducted by the Centre for Policy Studies (Ives, 2020), “61 percent indicated that it would have been harder for their businesses to operate without” digital platforms during the pandemic.

**Figure 14: Surveyed firms' use and adoption of marketplaces in response to COVID-19, by firm size and marketplace**

See Annex 2 (page 44) for more information

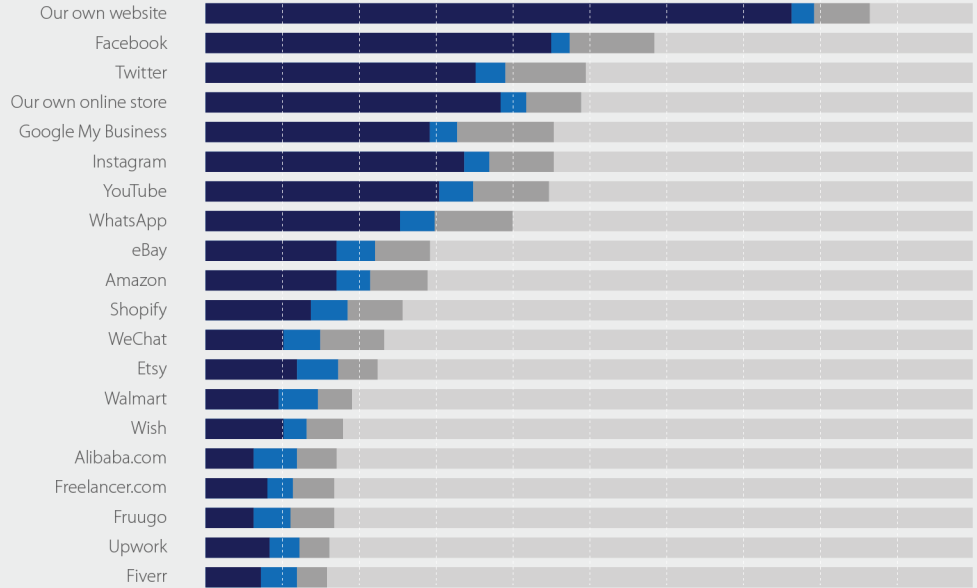


Source: VEEI Survey of Businesses in the UK, 2021

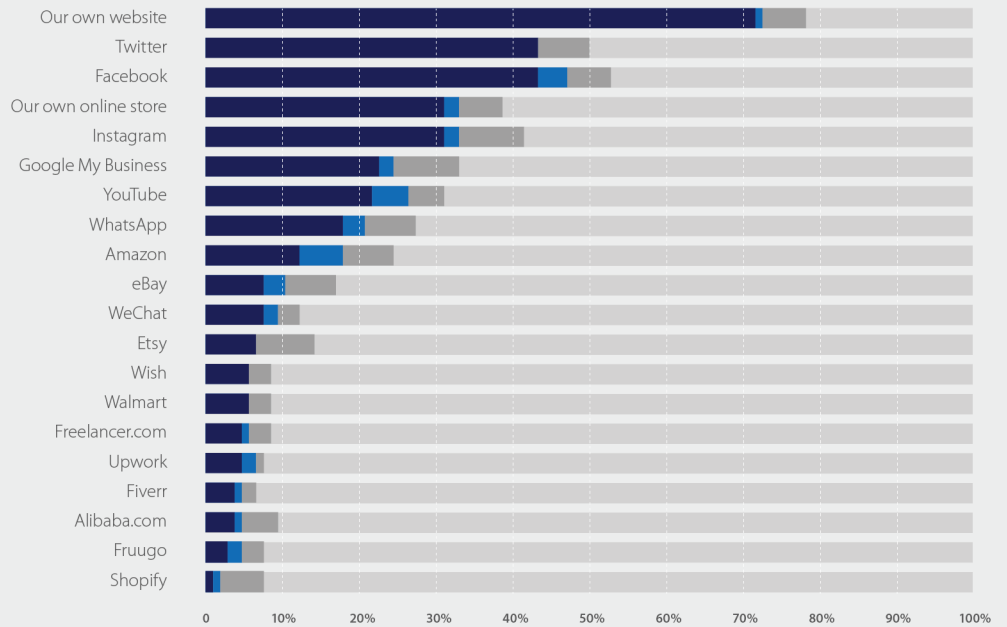
**Figure 14 (Cont.)**



**Medium (101-250 employees)**



**Large (>250 employees)**

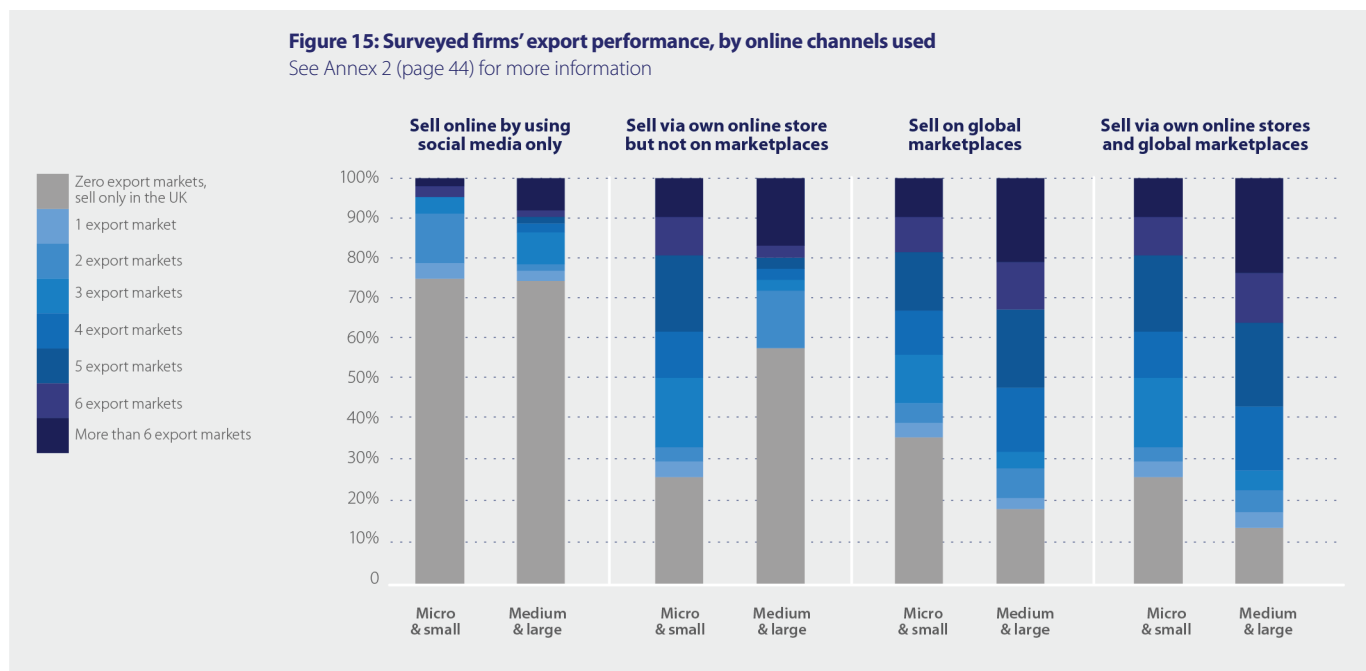


Source: VEEI Survey of Businesses in the UK, 2021

As seen in the next figure, there was a pronounced difference in export performance according to which channels were used. In terms of exporting to non-UK markets, firms that sell on their own online stores and on global marketplaces fared the best, while firms that sold online by using only social media typically did not export to other countries.

**Figure 15: Surveyed firms' export performance, by online channels used**

See Annex 2 (page 44) for more information



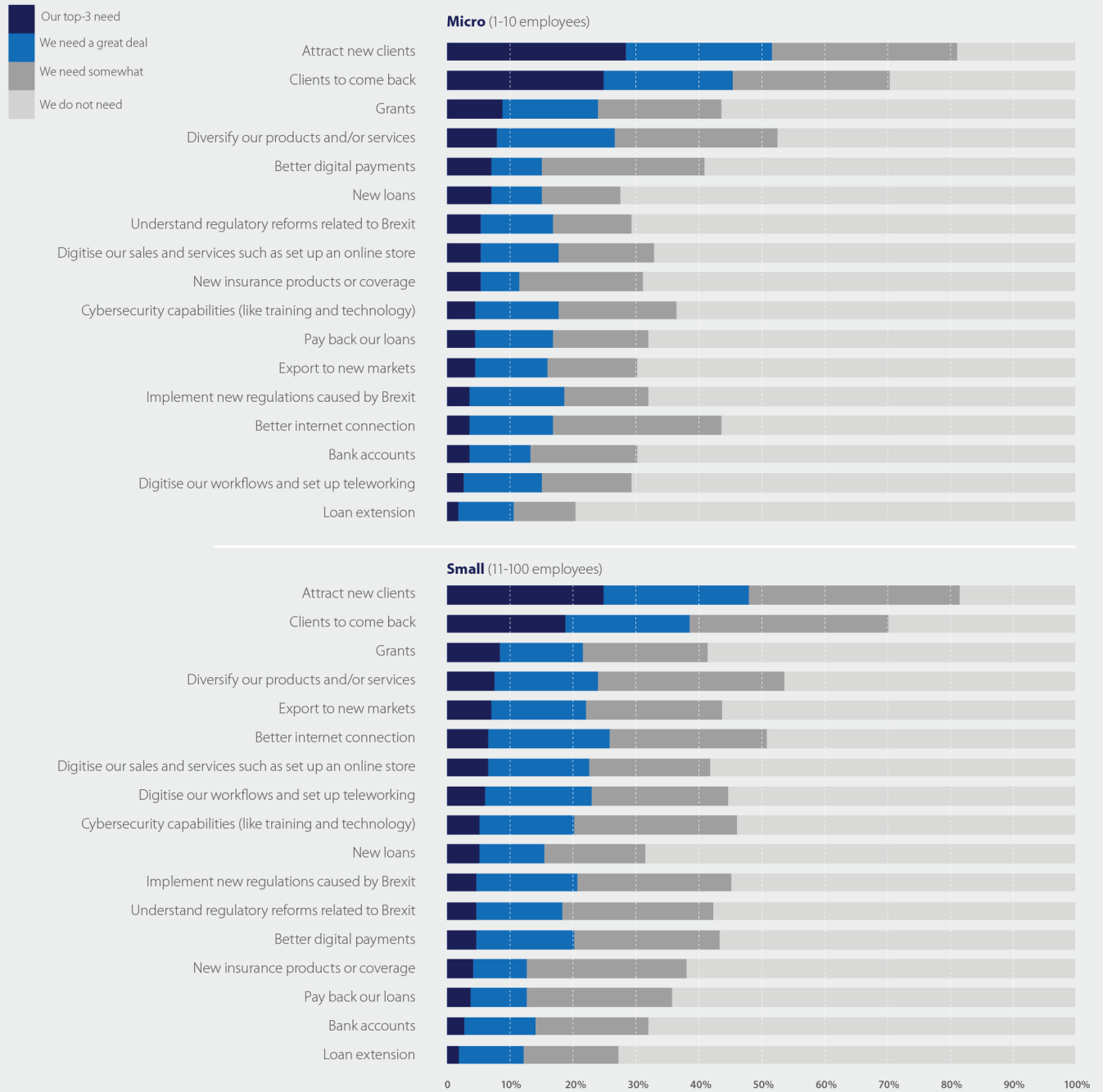
Source: VEEI Survey of Businesses in the UK, 2021

When asked about challenges with e-commerce exporting, micro and small exporting firms identified several top barriers: compliance with foreign trade rules (named by 18 percent of respondents), tariffs and other border issues (19 percent), long shipment times (19 percent), high foreign taxes on online sales (21 percent), differences in global tax regimes (23 percent), and customer payment difficulties (26 percent).

**Despite digital progress, MSMEs reported a number of ongoing challenges to their recovery, some of which varied by firm size**

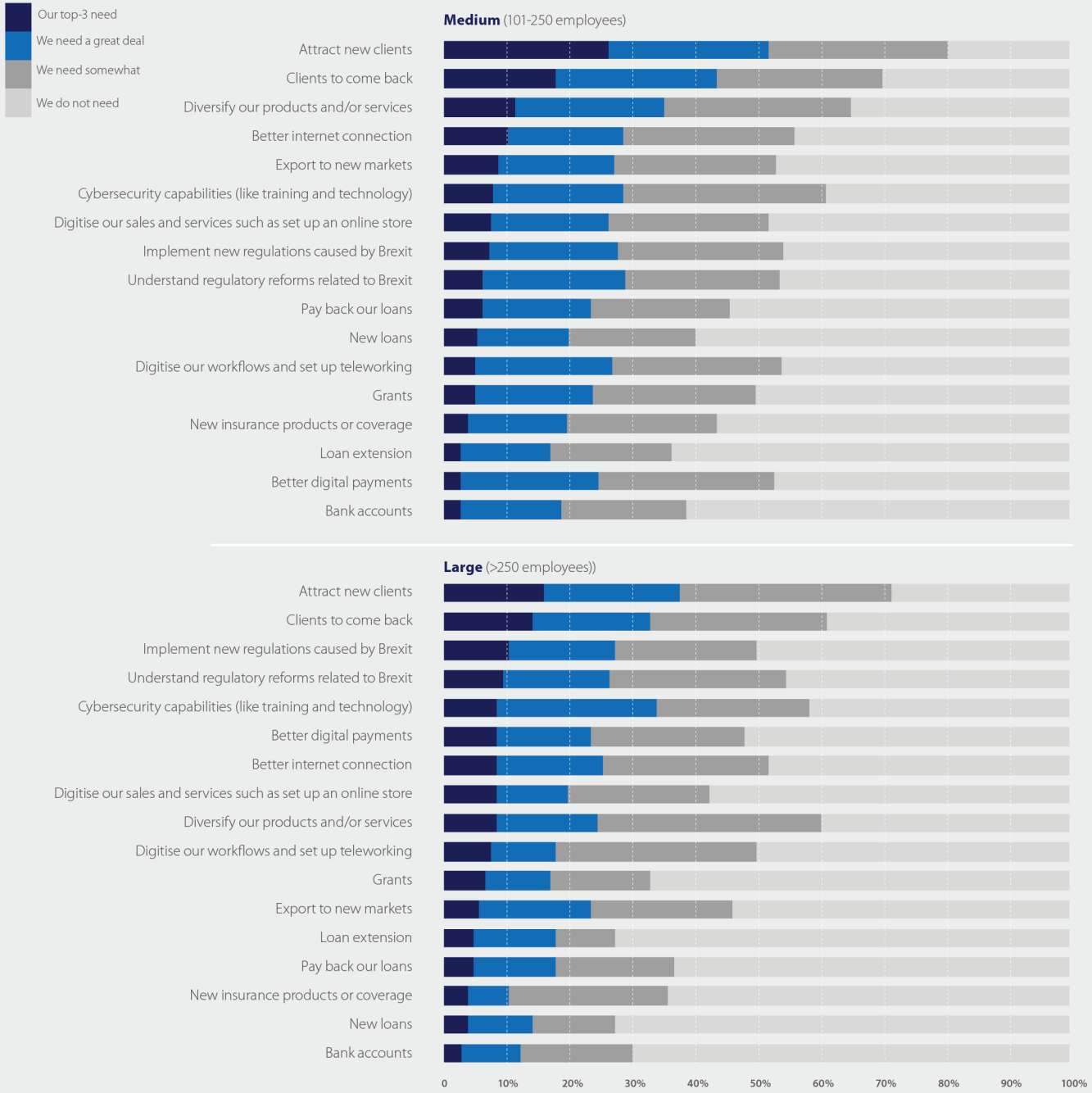
In terms of their business needs, the overwhelming majority of MSMEs said they still needed to attract new clients and retain existing ones; these top needs were followed by needs for securing grants, diversifying their products and services, and exporting to new markets. Medium and large firms also stressed cybersecurity capabilities as a major need, reflecting these firms' more elaborate databases and digital networks. Very small proportions of firms in all size categories wanted more loans, new insurance products, or loan extensions. UK firms, in short, want to get back to business and export.

**Figure 16: Surveyed firms' assessment of their recovery needs, by firm size and need**



Source: VEEI Survey of Businesses in the UK, 2021

**Figure 16 (Cont.)**



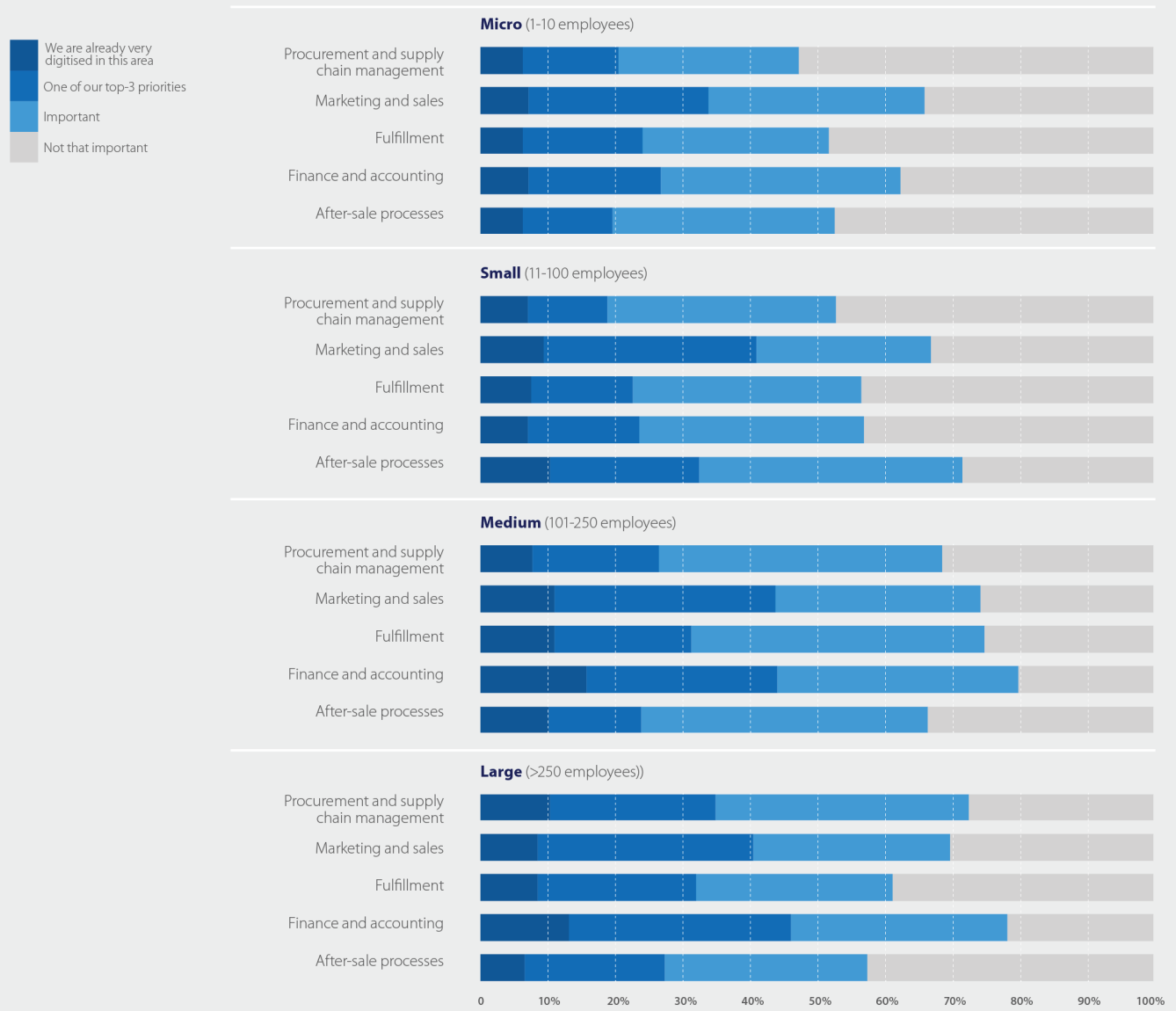
Source: VEEI Survey of Businesses in the UK, 2021



## Firms planned to prioritise improving their digital capabilities in sales and marketing

When asked about their digital transformation plans by subject area, MSMEs reported prioritising digitisation of their sales and marketing capabilities, followed by finance and accounting. This reflects UK MSMEs' interest in transacting more seamlessly online with both customers and suppliers. As can be seen in the following figure, about half of micro and small firms also highlighted the need for digital transformation of their fulfilment and after-sale processes as a "top-3 priority" or "important." Very few firms in every size category consider themselves to be "very" digitised in the various business areas.

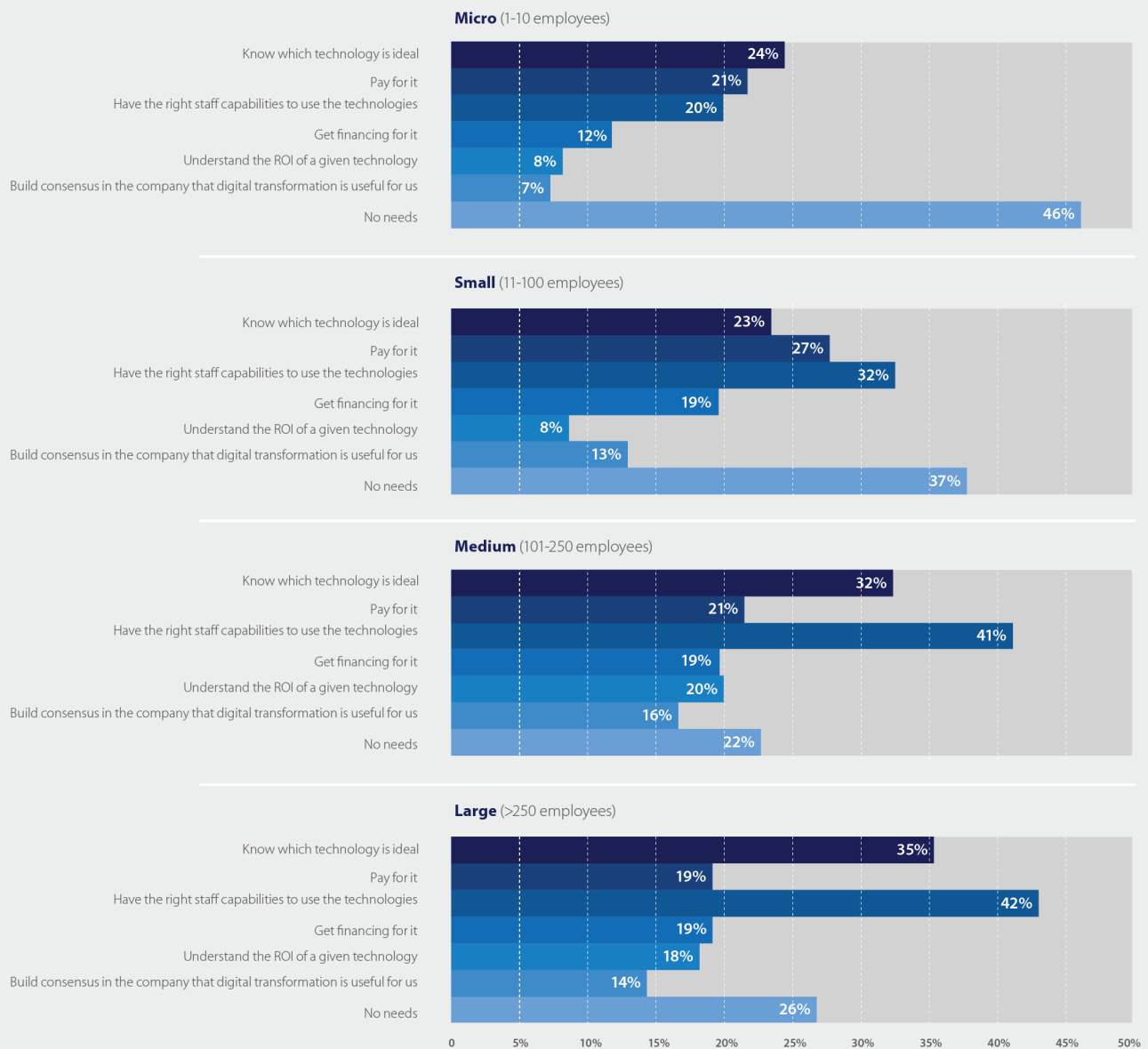
**Figure 17: Surveyed firms' digital transformation plans in key areas, by firm size**  
See Annex 2 (page 45) for more information



Source: VEEI Survey of Businesses in the UK, 2021

When asked about what they needed to carry out their digital transformation plans, firms of all size categories highlighted a need to learn which technologies are ideal; large firms also noted significant needs for staff capabilities so they could use those technologies, once acquired. As seen in the following figure, micro and small firms also stressed their needs for financing to acquire new technology capabilities.

**Figure 18: Surveyed firms' needs in carrying out their digital transformation plans, by firm size**  
See Annex 2 (page 45) for more information



Source: VEEI Survey of Businesses in the UK, 2021

# Four recommendations for MSME empowerment in the UK

Based on the results of the VEEI survey of MSMEs in the UK, and with public-sector and private-sector collaboration in mind, we offer the following recommendations for further empowering UK small businesses.

- 1. Emphasise digital transformation assistance for MSMEs.** In the case of the VEEI study of five developing countries, basic infrastructure such as electricity and broadband was sometimes a barrier to the digital enablement of small businesses (Harper, 2021). That is not the case in the UK, which enjoys a robust digital infrastructure. Although infrastructure itself does not present hurdles, the adoption of some digital capabilities by small businesses is still a work in progress. Many UK MSMEs expressed an interest in improving their digital capabilities. The adoption of digital payment capabilities and the use of marketplaces are quite high in the UK, but many firms report they still have work to do in these areas. Firms prioritised digitising their marketing and sales, as well as their finance and accounting capabilities, as key steps in their digital transformation. When asked what they needed to carry out this transformation, most of them reported that having the right staff capabilities to use new technologies would be key. This indicates that efforts to improve digital literacy and upskilling will be very important. Many firms will no doubt need financing assistance. Respondents from micro firms were more likely to say they needed to know which technologies were ideal, and given the very small size of the firms, the people answering the survey probably counted themselves as the end users. For its part, Visa has previously announced a commitment to digitally enable 50 million MSMEs globally, including 8 million in Europe, and this assistance includes payment tools to help run businesses, payment acceptance tools for new use cases, and skills and education assistance to help MSMEs thrive in the new business environment. As of January 2022, Visa has helped digitise 24.8 million small businesses, roughly half of the original commitment of 50 million. Helping MSMEs with the digital transformation of their businesses should continue to be a priority for the public and private sectors.
- 2. Keep consumers and merchants in mind when driving digital ubiquity.** Payment methods may differ in functionality, convenience, consumer benefits offered, and other characteristics; customer and merchant preferences will often be driven by specific use cases. Therefore, payments need to support the experiences, decisions, and needs of consumers for any transaction. Contactless payment capabilities originated in the card networks, and during the COVID-19 crisis, these touchless payments quickly became the norm in consumer payment behaviour thanks to their convenience, security, and low fraud rates. Their adoption has been especially high in the UK, where contactless now accounts for 75 percent of all in-personal Visa transactions for small businesses.

3. **Prioritise cybersecurity capabilities for small businesses.** As the digital payments landscape continues to evolve in response to changing business and consumer priorities, fraudsters are increasingly engaged in finding new avenues to exploit. With so much of UK retail now taking the form of e-commerce, better cybersecurity capabilities will be critical. As MSMEs work to improve their capabilities, there are a few key steps they could take, including preparing a cyber incident response plan and training employees to implement it (Davis & English, 2020). Larger firms in the survey were more likely to report interest in enhancing their cybersecurity capabilities; fewer micro and small firms said cybersecurity capabilities were a need, but they may be unaware of the increasing importance of these capabilities as they digitally transform their business models and practices. This is an educational opportunity.
4. **Help small businesses scale and globalise through leveraging e-commerce capabilities.** Our survey results indicate that many small businesses in the UK are taking advantage of the multiplier-market effects of digital trade. Keeping markets open for the cross-border movement of goods, services, and data is an essential part of building, maintaining, and expanding a pro-small business environment. Interoperability, especially regulatory interoperability, is key to allowing effective digital business across borders (Kotschwar & Suominen, 2021). Enabling firms to export using e-commerce requires further work on the interoperability of cross-border payment systems, export capacity-building, and public-private partnerships in order to optimise logistics. Surveyed small businesses reported several barriers related to navigating the complexities of cross-border e-commerce (including cross-border payment issues, global tax regimes, and trade rules). Given the importance of connecting MSMEs with more markets, the public and private sectors should partner to provide educational support and training to reduce these challenges.

We are pleased to contribute these recommendations to the extensive thinking already taking place within government and across the UK ecosystem, in order to better enable small businesses to thrive through levelling up opportunity across the UK, and to unlock the global potential of British small business.



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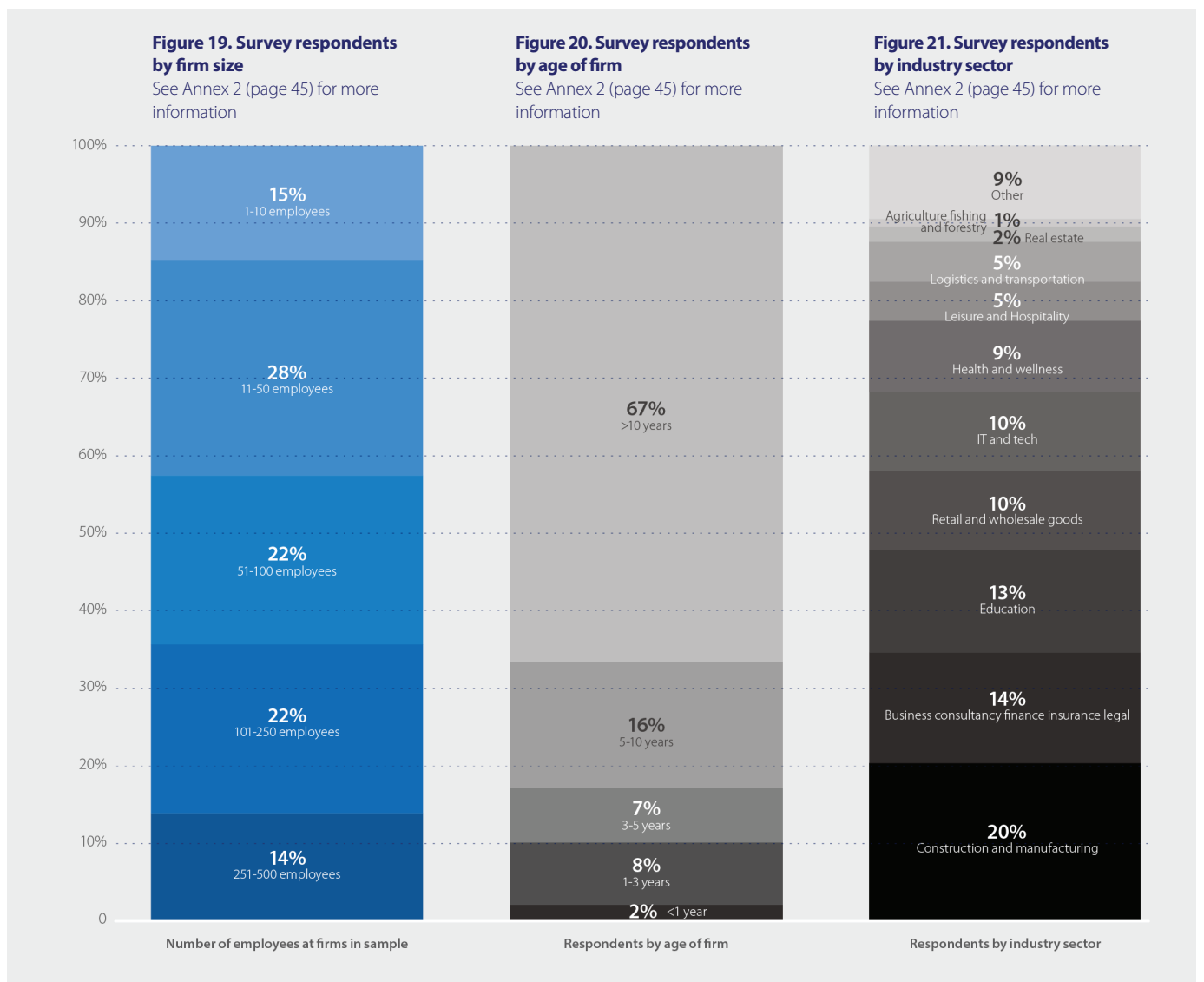
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# Annex 1: Survey methodology detail

The VEEI online survey, fielded in September 2021, obtained responses from 764 firms. Figure 19 shows respondents by firm size. And Figure 20 shows respondents by age of firm, and Figure 21 shows a more granular breakdown of business sectors.



Source: VEEI Survey of Businesses in the UK, 2021

## Annex 2: Text descriptions of figures

**Figure 1:** This bar graph plots the total number of private sector businesses in the UK between 2000 and 2021. Between 2000 and 2020, the number of businesses grew somewhat steadily from almost 3.5 million to almost 6 million, with a small drop-off in 2021.

**Figure 2:** This figure contains three plots, which track UK labour productivity, turnover, and employment by firm size between 2010 and 2021. The first plot shows that between 2010 and 2017, large firms were the most productive, followed by medium, small, and micro. In 2018, however, medium firms surpassed large firms as the most productive and remained ahead throughout the remainder of the period. The second plot shows that large firms had the highest real turnover between 2010 and 2021, approximately equal to the total turnover of SMEs during the same period. The third plot compares employment and turnover among large firms and SMEs. Throughout the period, SMEs accounted for approximately 60 percent of total employment, while large firms accounted for approximately 40 percent. From 2010 through 2016, large firms accounted for slightly more than 50 percent of total turnover, but were surpassed by SMEs from 2017 through 2021.

**Figure 3:** This figure, sourced from Euromonitor Passport, shows the trend line for access to broadband internet as well as possession of smartphones from 2004 to 2021. The graph shows that since 2004 there has been a substantial increase in both access to broadband and possession of smartphones. Broadband access began the period at around 15 percent, and grew to almost 100 percent, while smartphone possession began at close to 0 percent and grew to almost 90 percent. Access to broadband has been slightly higher than possession of smartphones, but since 2008 the gap has shrunk from a greater than 50 percentage point difference to around a 10 percentage point difference in 2021.

**Figure 4:** This figure, sourced from Euromonitor Passport, shows UK E-Commerce as a percentage of total retail spending from 2007 and 2021. The trend line shows the percentage of e-commerce growing continuously from 4.65 percent in 2007 to over 21 percent in 2021. Between 2019 and 2020, there is a dramatic increase in the trend line, which starts to become less dramatic between 2020 and 2021.

**Figure 5:** This figure is derived from Visa transactional data for UK businesses over the last three years. It depicts monthly year-over-year (YoY) percentage point change in growth rates for retail sales and e-commerce sales for all businesses, and for small businesses. Values near zero reflect little change in growth rates from the same month the previous year, positive values reflect a greater growth rate than in the previous year, and negative values reflect less growth than the year before. The line for all firms and small firms were relatively close to zero, reflecting steady growth trends, until spring of 2020, when the negative effects of the pandemic can be seen in steep declines in all retail and particularly in small retail. There is then a strong upward trend in spring 2021, reflecting a rebound of stronger growth compared to the year before. E-commerce trends show a different pattern. E-commerce actually grew until early summer 2021. The dotted lines are mostly negative in 2019, indicative of lower growth in 2019 over a very strong 2018. As soon as the pandemic hits e-commerce growth accelerated when compared to the 2019 numbers, and when overall retail activity rebounded, e-commerce growth slowed.

**Figure 6:** This figure shows firms' assessments of revenue growth in 2020. The chart breaks responses down by category of firms: micro (10 and fewer employees), small (11-100 employees), medium (101-250 employees), and large (250+ employees), and plots their assessment of 2020 revenues. Response options were: revenue decrease of more than 20 percent; decrease of 10-20 percent and company shrank; decrease of 0.1 – 10 percent and company shrank; 0 percent, no decrease or growth; 0.1 - 10 percent growth; 10-20 percent growth; and more than 20 percent growth. Approximately one third of micro and small firms reported they shrank during the pandemic, while nearly 40 percent of medium firms reported the same thing. Over one third of large businesses shrank. Across all firms, zero growth was the most common response.

**Figure 7:** Figure 7 shows surveyed firms' revenue growth by firm size and whether or not they were deemed essential (vs non-essential). The figure broke down firms by micro and small size and medium and large size. Firms that were deemed essential performed far better than those deemed non-essential. Across all firms, 0 percent growth was the most common response.

**Figure 8:** Figure 8 shows surveyed firms' revenue growth in 2020, by 2019 R&D investment. Firms were broken down by the percentage of revenue they invested into R&D. Firms that invested in R&D did better than those who did not invest. Those that invested over between 1-5 percent of 2019 revenues and those that invested over 20 percent of 2019 revenues in R&D performed slightly worse than those that invested between 6-20 percent of revenues.

**Figure 9:** Figure 9 shows surveyed firms' expected revenue growth in 2021, by 2020 performance. Just over 20 percent of the firms that performed badly in 2020, losing 20 percent or more of revenues, had the most negative outlook for 2021. Overall, the majority of firms in all categories expected zero or positive growth in 2021.

**Figure 10:** Figure 10 shows surveyed firms' expected revenue growth in 2021, by firm size (micro, small, medium, and large). Across all size firms, most expected either neutral or positive growth, followed by extremely positive. While a small percentage, micro firms were the most likely to report they expected extremely negative growth.

**Figure 11:** This figure shows surveyed firms' damage assessment of COVID-19 on key performance indicators, by firm size. Firms were broken up by size (micro, small, medium, and large) and reported if they would see an increase or decrease on performance indicators such as international purchases, sales (domestic and international), total hours worked, among others. Micro, small, and medium firms reported that international sales, international purchases, and domestic sales were among the most significantly KPIs affected. Large firms were more concerned with business loans, credit available to them, and international purchases.

**Figure 12:** Figure 12 shows surveyed firms' use and adoption of payment methods from domestic customers in response to COVID-19 by firm size and method. Firms responded if they started using a method prior to COVID, started using during COVID, plan of using it in 2021/22, or if they do not use it. Micro and small firms used bank wire most frequently while medium firms used debit cards most frequently. Among all size firms the least adopted forms of payments were Cryptocurrency and Emerging Payment Providers.

**Figure 13:** Figure 13 shows surveyed firms use and adoption of payment methods from international customers in response to COVID-19 by firm size and method. Firms responded if they started using a method prior to COVID, started using during COVID, plan of using it in 2021/22, or if they do not use it. Micro and small firms reported that bank wire / bank transfer was the most popular form of payment, followed closely by debit cards and credit cards. Medium firms reported that credit cards and bank wire/ bank transfers were the most frequently used option, followed by debit cards. Among all size firms the least adopted forms of payments were Cryptocurrency and either emerging payment providers (small and medium firms), or contactless such as QR codes (micro).

**Figure 14:** Figure 14 shows surveyed firms' use and adoption of online marketplaces in response to COVID-19, by firm size and marketplace. Firms were broken down by size (micro, small, medium, and large) and responded if they started using a method prior to COVID-19, started using during COVID-19, plan of using it in 2021/22, or if they do not use it. Across all firms "our own website" was the most commonly used online marketplace, followed by Facebook and to a lesser extent Twitter. Smaller online marketplaces were used at lower rates.

**Figure 15:** Figure 15 shows surveyed firms' export performance by online channels used. Firms were grouped by micro and small versus medium and large; these two groupings were then compared against the criteria of "sell online by using social media only," "sell via own online store but not on marketplaces," "sell on global marketplaces," and "sell via own online stores and global marketplaces." The data show that those who sold by using social media exclusively typically only sold in the United Kingdom (around 70 percent). Those who sold via their own online stores and global marketplaces typically sold to a greater number of markets. Micro and small versus medium and large showed the greatest difference in "sell via own online store but not on marketplaces," where micro and small were exporting to a much larger number of marketplaces using this approach.

**Figure 16:** The data in figure 16 show surveyed firms' assessment of their recovery needs by firm size and need broke up into micro, small, medium, and large. Firms were asked to rate if something was "our top-3 need," "we need a great deal," "we need somewhat," or "we do not need." Of the needs the top two responses across all firm sizes were attracting new clients, followed by clients to come back. For micro, small and medium firms the third most important need was diversification of products and/or services. Loan extensions and creating new bank accounts was frequently placed lower down as a priority for firms across the board.

**Figure 17:** Figure 17 shows surveyed firms' digital transformation plans in key areas, by firm size. When asked about their digital transformation plans by subject area, prioritised digitisation of their sales and marketing capabilities, followed by finance and accounting. This reflects UK MSMEs' interest in transacting more seamlessly online with both customers and suppliers. About one half of micro and small firms also highlighted the need for digital transformation of their fulfillment and after-sale processes as a "top-3 priority" or "important." Very few firms in every size category consider themselves to be "very" digitised in the various business areas.

**Figure 18:** This figure asks what firms needed to carry out their digital transformation plans by size. Firms of all size categories highlighted a need to learn which technologies are ideal; large firms also noted significant needs for staff capabilities to use technologies, once acquired. Micro and small firms also stressed their financing needs to acquire new technology capabilities.

**Figure 19:** Figure 19 provides detail on survey respondents by firm size. The data show that 15 percent of firms had 1-10 employees, 28 percent of firms had 11-50 employees, 22 percent of firms had 51-100 employees, 22 percent of firms had 101-250 employees, and 14 percent of firms had 251-500 employees.

**Figure 20:** Figure 20 provides detail on survey respondents by age of firm. The data show that the majority (66 percent) of firms are 5 years old, 16 percent are 4 years old, 7 percent are 3 years old, 8 percent are 2 years old, and 2 percent started within the last year.

**Figure 21:** Figure 21 provides detail on survey respondents by industry sector. Retail and Wholesale represented 10 percent of firms, business services represented 14 percent of firms, leisure and hospitality represented 5 percent, construction, manufacturing, and engineering represented 20 percent, education represented 13 percent, health and wellness represented 9 percent, IT and tech represented 10 percent, logistics and transportation represented 5 percent, real estate represented 2 percent, agriculture, forestry, and fishing represented 1 percent, and 9 percent of firms fell into other categories.

## About Visa Inc.

Visa Inc. (NYSE:V) is the world's leader in digital payments. Our mission is to connect the world through the most innovative, reliable and secure payment network—enabling individuals, businesses and economies to thrive. Our advanced global processing network, VisaNet, provides secure and reliable payments around the world, and is capable of handling more than 65,000 transaction messages a second. The company's relentless focus on innovation is a catalyst for the rapid growth of digital commerce on any device for everyone, everywhere. As the world moves from analog to digital, Visa is applying our brand, products, people, network and scale to reshape the future of commerce.

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