

SME Manufacturing support and COVID-19

Manufacturing Growth Programme

29 April 2020

Manufacturing is being hit hard and so are the economies that depend on it

In its latest coronavirus analysis, the Office for Budget responsibility set out its reference scenario, based on a three-month lockdown. This implied that GDP falls 35% in the second quarter but bounces back quickly. Within this, the OBR have made different assumptions for each industry sector based on shares of key workers and those able to work from home in each industry, with further adjustments for childcare and absences due to illness. The manufacturing sector is one of the worst hit, with a fall in output of 55% in the second quarter.

Manufacturing is important to the economy and particularly across the Midlands and North of England. The scale of this crisis will hit these areas disproportionately hard compared with places that are more dependent on service industries.

Recovery needs business support as well as finance

Much of the short-term focus has been on finance and the government's large-scale SME loans programmes. Cash flow is critical in a crisis, but as firms recover, advice and guidance will be equally important. The Manufacturing Growth Programme (MGP), delivered by Oxford Innovation, a specialist provider of support to ambitious and innovative businesses, is a core part of the support for SME manufacturers across 17 Local Enterprise Partnerships. In the last year alone the MGP has supported over 1,000 businesses which together generate a combined GVA of £1.2 billion for the economy.

New data from MGP

The MGP provides valuable data that shows how businesses are responding to the crisis. It shines a light on how the types of companies and support have changed since the start of the crisis¹:

- While the number of projects supported has been maintained since the start of the Covid crisis, demand for support has shifted from the larger SME manufacturers (small and medium businesses) towards micro businesses.
- This has also led to a change in the type support. There is more demand for shorter-term marketing and product development projects and less for productivity and capacity building projects.
- This pattern is understandable in the short-term: larger SMEs have re-trenched and many are not considering new projects.
- However, these are also the bigger employers, core to their local and regional economies. As the economy recovers, it will be important to shift this pattern back, ensuring that support reaches larger SME manufacturers and delivers projects that re-build capacity. The MGP is more important than ever in this.

Data analysis

The data has been used to analyse the pattern of support and the firms supported and how it has changed as a result of the Covid pandemic. The main aim is to compare pre-Covid and current "Covid" data. The analysis uses the average number and value of projects supported per month (30 days) between:

¹ The analysis defines pre-Covid as projects recorded between 28th April 2019 and 16th March 2020 and Covid as from 17th March to 27th April 2020.

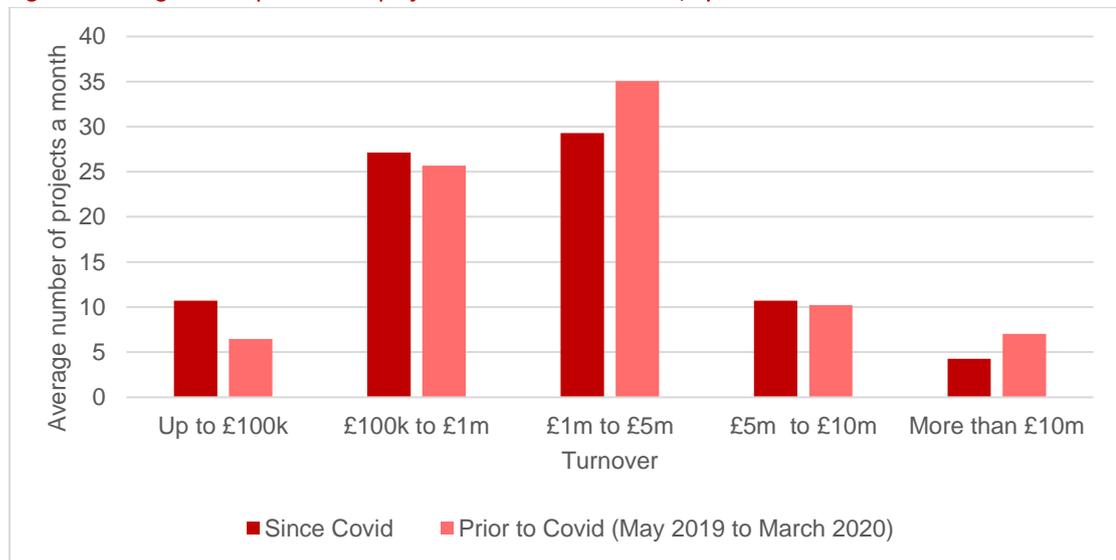
- Pre-Covid: 28th April 2019 and 16th March 2020
- Covid: 17th March to 27th April 2020

Demand from very small businesses has continued but the number and value of projects with businesses with a turnover of more than £1 million has fallen

The number of projects supported with businesses that have a turnover of less than £1 million has increased since the middle of March, while the number of projects with larger SMEs has fallen. The effect is strongest among businesses with a turnover of between £1 million and £5 million, and more than £10 million.

Larger SMEs have certainly re-trenched, many have crisis management frameworks in place and are not considering new projects. They are more likely to be able to shut down temporarily or have more complex supply chains affected by the lockdown.

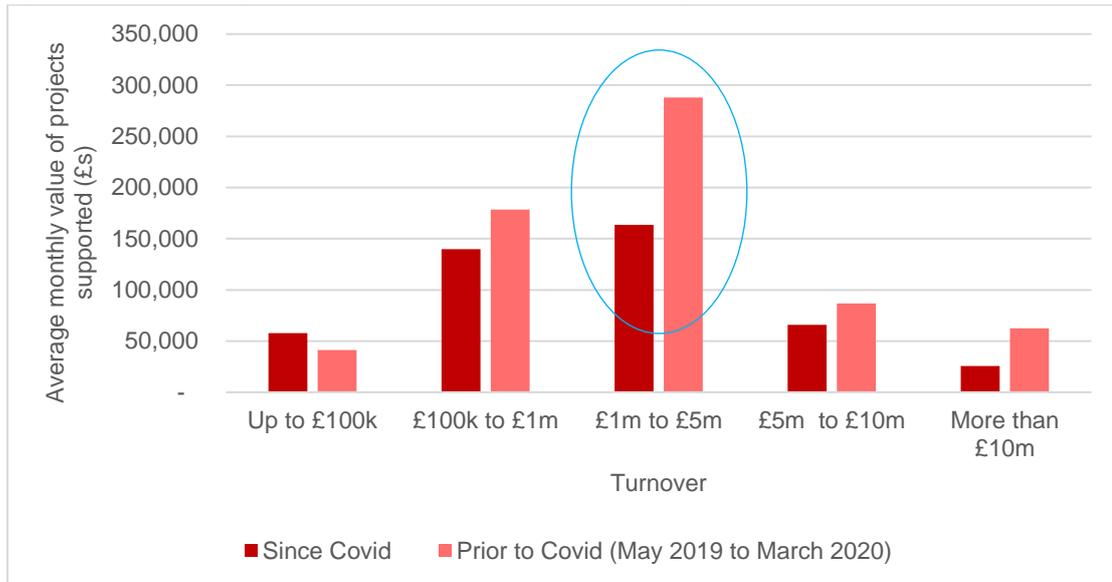
Figure 1: Average monthly number of projects before and after Covid, by turnover



Source: MGP data 2020 (n=1016)

This effect is emphasised when the value of the supported projects is used (Figure 2). This shows that the value of projects with larger SMEs has fallen even more substantially.

Figure 2: Monthly average project values by business turnover (all projects)



Source: MGP data 2020 (n=1016)

This pattern of increased demand from the smaller businesses is reflected in the average value of the GVA of the businesses supported, which has fallen from £1.2 million pre-Covid to £900,000 since the lock down.

Table 1: Average GVA of supported firms

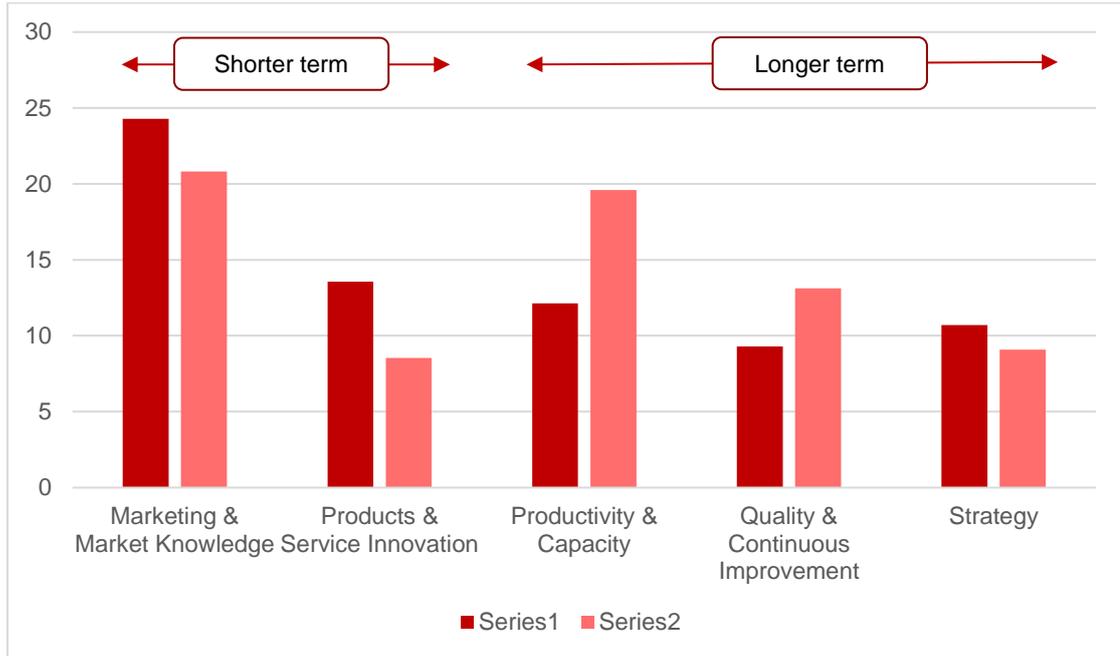
Time period	Average baseline GVA for supported firms
Since Covid	£915,482
Prior to Covid (May 2019 to March 2020)	£1,238,153
Overall average	£1,201,630

Source: MGP data 2020 (n=1016)

As a result, business focus has shifted towards marketing and market knowledge with less demand for productivity and capacity building

It is the larger SMEs that tend to undertake productivity and capacity building projects. With demand shifting toward micro businesses, there has been an increase in marketing or product support, and a fall in the number and value of productivity and capacity building projects. For example, productivity strategies, which are one of the main elements of these projects, have fallen significantly since Covid.

Figure 3: More demand for marketing and market knowledge and less for productivity and capacity building

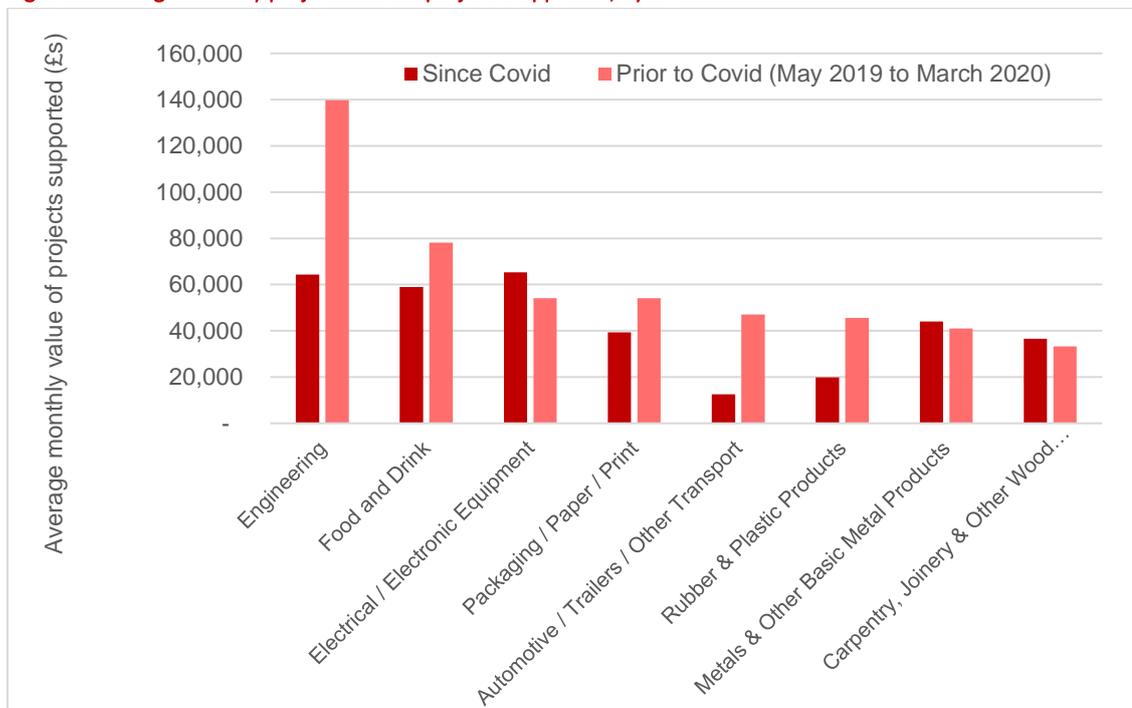


Source: MGP data 2020 (n=1016)

And the value of projects with engineering firms has dropped

A high proportion of small and medium manufacturers are classified in the engineering sector, which also means that this is a sub-sector that is disproportionately affected. The average monthly value of projects with these firms has fallen from £140,000 to £64,000. This is linked to the re-trenching of the larger SMEs.

Figure 4: Average monthly project value of projects supported, by sector



Source: MGP data 2020 (n=1016)

Summary

The Office for Budget Responsibility's reference scenario implies that the manufacturing sector will be one of the worst hit by the Covid crisis with a fall in output of 55% in the second quarter. Because manufacturing is so important to the economy, and particularly the Midlands and North of England, it will hit these areas disproportionately hard.

While much of the short-term focus has been on finance, advice and guidance will be equally important in our economic recovery. The data from the MGP shines a light on how the firms, and the support it delivers, have changed since the start of the crisis.

It shows that while the number of projects supported has been maintained demand has shifted from larger SME manufacturers (small and medium businesses) towards micro businesses. There is more demand for shorter-term marketing and product development projects and less for productivity and capacity building projects.

These changes matter because larger SMEs are core to their local and regional economies. As the economy recovers, it will be vital that support reaches these firms and delivers projects that re-build capacity. The MGP is more important than ever in this. It needs to ensure it has the resources and the flexibility to help the manufacturing sector address the scale of this challenge.