

Segmenting the business impacts of COVID-19

– and where do firms go from here?

**This paper sets out a four-part segmentation of where firms are today
and four emerging themes for recovery**

In the past six weeks, Be the Business has engaged with thousands of firms around the country. Our Covid Hub and social discussion forums have reached over 250,000 individuals, with over 3,000 questions and comments raised. To refine this firehose of feedback we ran structured interviews with 11 SME leaders in early April to identify emerging patterns. These were tested in a survey of 500 SMEs between 15th and 20th April conducted by Opinium, asking leaders about the condition of their business in response to the pandemic, their financial and staff position, and their plans for recovery.

What we've found

We have identified four different segments from our research that capture both the current mindset of a leader and status of their business.

Segment 1: Hibernators (28% of firms). Hibernators have closed their business and furloughed most of their staff, either on government advice or because they could see no way to remain open whilst protecting health and wellbeing or staying solvent. These are often customer-facing or labour-intensive SMEs with a physical presence to deliver their core product or service.

Segment 2: Survivors (32% of firms). Survivors have seen dramatic falls in their turnover or the temporary suspension of products or services that require the use of distribution channels (retail stores or restaurants) or customer fulfilment (cafes and delis) that are not viable during the pandemic. More likely than not, their business was deemed non-essential, but they were nimble in their decision-making and so, whilst struggling to operate, have adapted to battle through to deliver a narrower range to a smaller customer base. They have limited planning capacity, risk appetite or financial flexibility to consider more than minor tweaks to their operating model or new products.

Segment 3: Pivoters (21% of firms). Pivoters were fleet of foot in the initial stages of the pandemic. They were able to rapidly shift staff, services or production to meet the needs of a new customer base. Either they already had plans to launch a new product or invest in new ideas, or they had the financial firepower, staff and productive flexibility to pivot. The changes they made have allowed them to remain open and, whilst they may not be permanent, they have consolidated positions as innovators and dependable local firms establishing new opportunities for the future.

Segment 4: Thrivers (6% of firms). Thrivers, by luck or good judgment, have been able to ramp up production of existing products or services. Potentially deemed an essential business, they have been working at a pace where their next step might be to invest in more staff or additional production capacity. They always embraced a flexible and adaptable business model, with staff capable of moving to a new working culture with limited interruption to productivity.

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A further **12% of businesses are experiencing business as usual** and report no significant change to their business environment. This may be temporary, since they may experience precipitous falls in demand at a later stage. Alternatively, they may have adopted a business model that is largely insulated from closures or are deemed essential. In that sense they could be classed as thrivers.

How businesses are responding to the crisis



What we are learning about the segments

Hibernators: balancing the books

“We want to come back with a roar and we can do that with a change in marketing and a website refresh.” Carrs Pasties – Matt Carr (Director)

As expected, **hibernators had decided to furlough more staff than other segments by April 20th**. Four in ten were furloughing more than 70% of staff. Hibernators are evenly split between those who are not sure what to expect next and those who are beginning to think about how to plan and invest, as they will be forced to take on additional costs before revenue returns.

Richard Marshall of Pall Mall Barbers is a typical hibernator. In his own words, “3 weeks ago, we were trading as normal and then we were trading at 80%, then 20% and finally 0% within a couple of weeks.” His eight shops have all closed and he is asking landlords for rent forbearance.

For more on Richard and other SME stories see [appendix 2](#).

Beyond strategic support to remain solvent, hibernators are looking for help navigating government support to batten down the hatches. They are also asking for practical ideas for how to continue operations whilst preparing for recovery and reopening. Where working practices might need to adapt, they want more certainty about what they can do now so they can take full advantage of opportunities. This could include programmes to encourage technology adoption.

Survivors: demand and supply concerns

“Out of bad times a lot of good things can happen. Our sector might be impacted for a long time so we’re seeking out work and new opportunities that might benefit us in the long run.” Isteria Group – Sam Rowe (CEO)

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Survivors are more worried about their ability to continue operating: their biggest concerns are over a lack of consumer demand (73% concerned or very concerned) and the costs of adapting their business to social distancing (75%). However, their financial position does not seem to be as precarious as other segments, with the second highest cash reserves (12.6 weeks).

Sam Rowe of Istorya Group, a global events management firm with 75 staff, has seen bookings evaporate overnight. It has furloughed 16 staff, cut executive pay and is focusing on future innovation to see them through this crisis. It anticipates making further changes to how it operates for the foreseeable future.

Survivors are managing demand and supply. As they have lost significant revenue streams, how can they bounce back? They are working to prevent revenues from falling too far too fast, although they have limited bandwidth for strategy or to overhaul operations. Rapid, concise answers to practical questions will be their focus right now, as well as quick wins to improve operational efficiency to preserve whatever they can without too much further disruption.

Pivoters: managing risk, seeking investment

“When you’re running a business and it’s going alright you don’t really have the head space to take on a new product. So, this kind of forced our hand.” Dunsters Farm – Tom Mathew (Director)

31% of pivoters are working on new revenue streams compared to 21% of the wider SME sample. This may mask other bigger changes. Pivoters report high rates of staff redundancies (58%), whilst others have hired new staff (25%) or deployed existing staff to new roles (24%) showing their willingness to overhaul their entire operation.

Brian Crowther of Flower and White was downbeat at first, sharing that “When we saw the situation developing, we felt like our products and sales were going to struggle.” However, instead of mothballing the business and furloughing staff, he chose to launch a new set of products, such as home-baking kits, which require less staff interaction to tap into new markets. Within weeks online orders increased by 800%.

Firms like Flower and White are considering whether new revenue streams they have pivoted to are worth continuing once previous customers return. They are seeking advice on whether to invest in expansion to consolidate their pivot or return to what made them great in the first place once normal conditions resume.

Thrivers: sustainable business models

“We’re working efficiently and are focused on sales. Last week we won three new customers and just came off a record quarter in March.” Big Change – Martin Port (CEO)

Thrivers are working harder than ever before with 57% reporting they have hired new staff. 33% of thrivers report deploying staff to new roles compared to 16% for all firms. The lockdown is not posing significant challenges for them, so they do not see it as a major concern. **The majority (57%) are not worried at all by the prospect of lockdowns extending for a long period.** Thrivers are working hard to adapt their operations, reporting the highest number of changes implemented to respond to coronavirus, such as physical barriers in stores or queuing to maintain social distancing.

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Martin Port of Big Change, a mobile resource management firm that allows others to adapt to remote working, just came off a record quarter to the end of March and won three new customers at the start of April. To cope, Big Change has moved back into a start-up mindset, emphasising speed in sales conversion and keeping a careful hold on cashflow.

Thrivers have limited time to think beyond the business but would benefit from targeted advice to cope with higher demand through improved operational efficiency. Leaders might also be facing significant strain on their capacity to make rapid decisions and look after the needs of their employees, which presents an opportunity to focus on management and leadership skills.

Implications for recovery

These segments are obviously dynamic in nature – with firms moving between segments and context likely to change several times in the coming months. However, their broader value is in providing a vital window into the starting point of any recovery efforts. As we begin to design our own recovery response, we see four emerging themes that we think are over-arching:

Theme 1: There is a huge business model innovation opportunity – both pivoters and hibernators are planning for this and most others are beginning to explore it. It challenges the notion common in policy circles that the innovation opportunity is only found in start-ups or high value sectors. Necessity has been the mother of invention for these businesses and more often than not, the innovation was pre-conceived rather than Covid-related. We are working with these businesses to support their ability to turn sustainable pivots into sustainable innovations.

Theme 2: Technology confidence “could” become technology adoption – much has been made of the potential shift post crisis to online collaboration tools at the heart of work. But while these tools are obviously welcome, the bigger prize is widespread adoption of significant productivity-enhancing technologies. Indeed, many of the firms we have interviewed have recognised the importance of technology systems for customer management, marketing, HR and finance and have recommitted to getting these done. The most important impact of the Zoom boom, may be the surge in confidence that business owners have now gained on technology adoption more generally. We are working now to capture this opportunity with both demand side and supply side campaigns to convert confidence to adoption across business operations.

Theme 3: Resilience, the buzzword, is a real business discussion – the shock to each business has prompted both immediate response and also a re-evaluation of risk and resilience. Most business owners anticipate further Covid 19 waves and a potential new trade deal ahead. Their definition of resilience is a financial one (cash balances and cost savings); a people one (worker physical and mental health); an operational one (systems and processes for core operations and protections such as insurance); and one of diversification (do I need to add to my core offer to be able to hedge better in future). We will be developing core curriculum in these areas for firms.

Theme 4: There will be a productivity paradox: big push for efficiencies but real aversion to investment – our survey shows a mere 10% of firms are considering investments and this is entirely understandable yet many of those we interviewed are torn, given the success of early pivots and innovations. Everyone we have spoken to has already spotted efficiencies and almost all are likely to make significant staff savings post furlough. Given demand hits, it's unlikely to be good news for productivity but there is a unique combination of efficiency, innovation and technology prizes available – policymakers will want to consider what it would take to capture it.

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Appendix 1: Opinium survey – summary of segmentation

Summary of segmentation analysis

	<i>Average</i>	<i>Survivors</i>	<i>Hibernators</i>	<i>Carrying on</i>	<i>Pivoting</i>	<i>Thriving</i>
Staff						
Not furloughed staff	37%	37%	35%	73%	24%	23%
Furloughed greater than 70%	17%	17%	41%	2%	8%	3%
Weighted average % furloughed	26.4%	23.3%	41.5%	8.8%	22.9%	18.8%
Laid off staff	37%	28%	32%	15%	58%	70%
Weighted average % laid off	10%	6.2%	12.6%	5.3%	13.0%	16.5%
Hired new staff	15%	7%	9%	8%	25%	57%
What are staff doing at the moment?						
Not much but planning	4%	33%	71%	13%	33%	30%
Deployed to new roles in the business	16%	15%	11%	10%	24%	33%
If nothing changes how long before you run out of cash						
Weighted average of all responses	12.2	12.6	10.9	16.5	11.3	10.1
Concerns for the year ahead (sum of concerned or very concerned)						
Lockdown extending for a long time	66%	71%	76%	50%	59%	43%
Resurgence of coronavirus	77%	78%	85%	65%	75%	70%
Costs of adapting business	67%	75%	76%	35%	69%	57%
HR issues	54%	58%	53%	38%	57%	57%

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Supply chain interruptions	55%	62%	49%	32%	66%	43%
Lack of demand	66%	73%	75%	35%	64%	53%
Brexit	52%	55%	48%	42%	58%	50%
Lack of access to credit	52%	58%	49%	25%	62%	50%
Permanent changes to consumer behaviour	60%	64%	65%	38%	63%	40%
Changes implemented as a result of the pandemic (sum of implemented already or planning to soon)						
Enforcing social distancing between staff and/or customers	72 %	74 %	71 %	60 %	73 %	87 %
Implementing queues at entry points to manage customer flow to websites or bricks and mortar stores	43 %	43 %	42 %	25 %	46 %	77 %
Providing protective personal equipment, such as face masks or gloves, for staff and/or for customers	43 %	43 %	41 %	20 %	49 %	77 %
Putting in place physical barriers at points where social distancing cannot be enforced	37 %	40 %	33 %	20 %	41 %	67 %
Alternative customer fulfilment logistics such as click and collect or delivery that were not part of your operating model	30 %	30 %	20 %	18 %	42 %	57 %
Implementing working from home policies	52 %	60 %	44 %	37 %	57 %	60 %

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Appendix 2: Pen Portraits of Segments

Hibernating

Carrs Pasties – Matt Carr (Director)

“We want to come back with a roar and we can do that with a change in marketing and a website refresh.”

- Retail and wholesale food producer in the North with 100 employees.
- Increasing moral and government pressure to close retail outlets before lockdown, so they made the choice to furlough staff and go into hibernation.
- The decision was difficult for employees who were concerned for the company, their jobs, and having to stay at home. The company are concerned with mental health and are exploring a volunteering scheme.
- In the coming months Carrs Pasties are concentrating on strategic planning: modernising marketing techniques, refreshing packaging, business development and early stage sales work, and building a digital CRM system.

Pall Mall Barbers – Richard Marshall (MD)

“3 weeks ago, we were trading as normal and then we were trading at 80%, then 20% and finally 0% within a couple of weeks.”

“Everyone needs a haircut. Everyone wants to look good. The reality is, we have a viable business, we were trading well before, and we have to consider how long it’s going to take to get us back to that point.”

- A barbering business with eight shops, seven in the UK and one in New York.
- Was deemed non-essential, so had to close its doors.
- The company are working with landlords to understand what they can do to help them. This is essentially a bump in the road for them and the landlords recognise changes need to be made to ensure long term business.
- Also working with their bank to understand what help is available.

Surviving

Istoria Group – Sam Rowe (CEO)

“Out of bad times a lot of good things can happen. Our sector might be impacted for a long time so we’re seeking out work and new opportunities that might benefit us in the long run.”

- A group of creative agencies managing large events, conferences and mass gatherings globally with 75 employees.
- All projects have been cancelled until the end of July, but they anticipate this to extend at least until the end of the year.
- Taking a three-pronged approach to coming through the crisis:
 - Finances - cut costs across all departments, furloughed 16 members of staff, implemented pay cuts across the executive board and shareholders, and are considering all government incentives and support.

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- Communication- ensuring communication with team and visibility of senior leaders is high. Focused on keeping morale and productivity up.
 - Innovation- the sector is likely to be impacted for a long time, so they are taking a long-term approach. Using this time to look for new opportunities and develop different products and services.

The Site Supply Company – Danny McKeever (Director of Ops)

“It’s been a shock right through the business and we’re adapting on a weekly basis. The work wear element has stopped off completely- we’re selling probably 95% less than what we were doing before. But we still have quite a big demand to sell PPE.”

- Provider of hi-vis clothing and personal protection equipment.
- Work-wear product sales have fallen by about 90%.
- Staying open to provide PPE to frontline services. This is getting harder to get hold of as demand has ramped up dramatically.
- Have had to adapt to keep the business moving forward, with some employees now furloughed and others working from home. Using this time to design and implement new systems.
- Using different communication methods to continue team spirit.

Pivoting

Flower and White – Brian (MD) and Leanne Crowther

“When we saw the situation developing, we felt like our products and sales were going to struggle. We could have moth balled the business and furloughed staff, but instead we launched a new set of products.”

- Food production industry, specialising in handcrafted meringues, with 25-30 employees.
- Kept the factory open but had to make changes quickly. Key focus has been on staff wellbeing and health, but also continuing production. Have not furloughed any front-line staff and are actively recruiting.
- Strategically focused on the development of nine new products, like home baking kits, which require less team interaction and use more machine-based production.
- Online orders through their own website and Amazon are now around 350; an increase of approximately 800%.
- Trying to forecast for new market and sales opportunities in a changing marketplace.

Dunsters Farm – Tom Mathew (Director) – Family business

“When you’re running a business and it’s going alright you don’t really have the head space to take on a new product. So, this kind of forced our hand.”

- Food service based in Bury since 1963.
- With 70% of customers in education, and the rest made up of restaurants and cafes, 95% of business disappeared in a few days.
- Decided to move into B2C sales and immediately built a new website for a home delivery service – an idea they were previously exploring.

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- Working with others locally to avoid competition with national supermarket chains.
- Commercial growth goals have gone out the window, but this has left more time to grow and develop a new product.

Cube Video – James Hakesley (CEO)

“Over the past few weeks, we’ve all had to adapt to what for the moment is the new normal. We’ve started to establish new products and ways to provide our services.”

- Video and animation agency specialising in content creation for businesses and brands.
- Rely on physical shoots at offices, on location and at events, all of which have been postponed.
- Now offering clients new products and services like previously shot content used in new ways, guidance and training on how to film at home, and new animation offers.
- Being proactive about finding new work by reaching out to previous clients with freebies.
- Using time now to focus on the business, plan future pieces of work, and develop marketing so they can come out of this fast.

Display Mode - Leon Edwards (MD)

“In just over a week, we went from looking as though we might not be able to continue as a business, to having a clear purpose.”

- Point of sale display maker for retail, with 23 employees.
- Orders dried up overnight and the business would lose any cash reserves quickly.
- Already adept at making things out of plastic, Leon’s team rapidly reconfigured the firm’s entire operation to design, prototype and manufacture protective face-shields.
- This could keep the firm afloat for a few more months and the team are now planning for the future.
- Recognise this year isn’t about making profits, it’s about reorganising and working through solutions that enable them to come out the other side of the crisis.

TopHat - Hattie Mauleverer

“It’s exciting, it’s stressful, it’s scary. When I reached out to people, I was basically saying, ‘I do have another business that most of you are unaware of – please support it’, and word just spread.”

- Successful 13-year-old catering business with 4 employees.
- 5 out of 6 events were cancelled in the second week of March and all summer events since cancelled. Employees were furloughed and the business mothballed.
- Fortunately, Hattie also had a new business offering, Eight Food, which produces healthy and gluten-free frozen meals.
- Eight Food had seen modest sales, but since ramping up effort and marketing, sales have dramatically increased.

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Thriving

Big Change – Martin Port (CEO)

“We’re working efficiently and are focused on sales. Last week we won three new customers and just came off a record quarter in March.”

- Specialising in mobile resource management, their technology helps companies become paperless and more efficient.
- All 167 employees now working from home using their own technology. Some concern around employee wellbeing and mental health.
- Provide software that can help companies manage their response to covid-19 through guidance around risk assessments and health and safety.
- Sales are steady but they are still managing cash flow closely. They have cut 250,000 off their monthly spend through executive wage reductions and removing “nice to haves”.
- Martin shared that they feel like a start up again with quick sales and management of cash flow as a precaution.

Money Penny – Joanna Swash (CEO)

“We’re operating just as if we’re still in the office, taking calls and chats for clients wherever they are, which means it’s complete business as usual for us. We consider ourselves really lucky.”

- Support businesses of all sizes with telephone calls and live chat customer service.
- 1000 employees in the UK and USA are all working remotely now.
- Key challenge around maintaining an outstanding company culture, ensuring employees are happy and keeping engagement levels high. Communication has been key to this.
- Client requirements are changing as some are choosing to close or reduce cash flow. However, many are embracing our live chat offers and other services not previously on their radar.
- All clients are planning on recovery, so they want to know how we can help them in the interim and what we can do to help them get back on their feet quickly.