



# Pandemic Insights: Small Business Experience

SEPTEMBER 2020

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# Foreword

## Steve Vamos



*Steve Vamos*

**Steve Vamos**  
CEO, Xero

The COVID-19 pandemic has caused tremendous loss and forced every one of us to change how we do what we do.

While it is too early to determine the full social and economic impact of the crisis, we know the small business economy has been one of the hardest hit as business owners have been forced to temporarily close or greatly reduce their operations.

Small business is family and community, it is also a big source of growth and innovation in economies around the world, and they are doing it tough right now.

There is evidence that in some countries small businesses were hit twice as hard as large businesses, as they had lower cash reserves to call on or capacity to cut costs.

Support from governments around the world, has been critical to help small businesses survive and protect as many jobs as possible - and as we move into the next phase of recovery, governments around the world are working hard to structure longer-term programs that will allow economies to return to pre-covid levels.

The hardship small businesses have experienced is the first chapter in their pandemic story. The chapters that follow are all about their resilience. As countries contain virus cases and health restrictions are eased, small businesses have demonstrated their capacity to adjust to new circumstances and find ways to serve their customers again.

Many owners have completely reorganised how they operate, accelerating the adoption of technology and digital business models, and introducing new products and services to make their business more resilient.

The persistent nature of the virus means the recovery is unlikely to be smooth or evenly felt across the world. In the report, you will find the re-emergence of the virus in some geographies has already seen early signs of recovery derailed because of the need to reintroduce local lockdowns. Sectors that depend on tourists or large gatherings of people will take longer to rebound. Similarly, tourism-dependent regions are unlikely to recover as quickly.

Anyone who doubts the resilience of small business, or owners who aren't sure if they will make it through, may find inspiration from those who have seen it all before such as M. Manze Pie and Mash shop in London, UK and Oliver's Taranga Winery in South Australia. These Xero customers survived the last global pandemic in 1918 and are meeting this latest challenge as digitally enabled businesses.

At Xero, we care deeply about our small business customers, their advisors and the success and growth of their business.

That's why we are eager to share what we learn from our customers, with governments, and will continue to provide those insights that can help governments shape future small business recovery and support programs.

Small business owners understand how difficult the period ahead will be. We are confident that with the right support many will rebuild and play a critical role in the post-pandemic recovery.

# Executive summary

The global economy is experiencing one of the largest shocks in a century due to the COVID-19 pandemic. Unprecedented and broad-ranging social distancing measures brought economies to a standstill. Small businesses have been particularly hard hit, with our estimates showing they have been as much as twice as badly affected as big business in key areas such as job losses.

Official statistics typically have limited coverage of this important sector. However, Xero Small Business Insights (SBI) provides an unparalleled picture of the impact that COVID-19 has had on small business in New Zealand, Australia and the United Kingdom. The insights for this report are based on anonymised and aggregated metrics drawn from hundreds of thousands of small business Xero subscribers.

This report provides some early insights into how the small business economy responded to the combination of health restrictions, significant fiscal packages and easier monetary policy deployed by governments. These early lessons will help guide policy decisions through the coming months as small businesses start to rebuild.

## Four key themes have emerged so far:

- 1 The trading and border restrictions, needed to tackle the health crisis, had a significant impact on small business.** Small business revenues fell sharply as social distancing measures came into effect. In New Zealand and the United Kingdom, small business revenues fell by around a third in April compared to a year earlier. In Australia, the impact was smaller, as lockdown measures were less severe. Even so, revenues for Australian small business were 10% lower compared to a year earlier. Job losses were also significant across the three countries, with Australia recording initial losses of 12% and New Zealand down 5%. In the UK losses are continuing even in July, down 7% since the start of the crisis.
- 2 Once restrictions were eased small business started to show signs of recovery.** By July revenues across all three countries were higher than their crisis-troughs. There were also early signs of rehiring in Australia and New Zealand, although this lagged the revenue recovery. However, it is clear that the health and the economic crises are closely connected which makes for a bumpy road to recovery. Already there are signs that the recovery has stalled where second waves have forced areas to reinstate lockdowns.
- 3 Government support cushioned the downturn and is aiding the recovery.** These early signs of recovery have been supported by government stimuli designed to support jobs and cash flow during the crisis, with more than half of firms receiving wage subsidy support in the three countries. Ongoing government support will be needed to ensure that small business can survive the continuing uncertainty. Support will eventually need to be wound down but this needs to be done cautiously as the recovery becomes more sustainable.
- 4 With the right tools some businesses have been able to adapt to new trading environments.** Many small businesses were hard hit by COVID-19, but some found ways to adapt and thrive. Digitally enabled firms, which could pivot to working from home, growing online sales, or making use of business app tools, were more resilient, saw their revenues fall by less, and were able to better retain staff.

# 1.0

## **Sudden stop: Small businesses were hit hard by COVID-19**

COVID-19 has been a significant shock to small businesses across the globe. At the start of the crisis, as countries were put into lockdown, small business revenues fell by more than 10% in Australia, more than a quarter in the UK, and 40% in New Zealand.

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## 1.1 Trading restrictions had a significant impact on small business revenues

Global economies are experiencing the largest economic downturn in a century because of the COVID-19 pandemic. Social distancing measures, and restrictions on trading designed to combat the public health crisis, have directly affected the functioning of global economies.

The scale of the crisis is clear in the impact it has had on small business revenues.

At its peak, small business revenues fell by 11% in Australia, by 27% in the United Kingdom and by 40% in New Zealand (see figure 1).

The initial effect on small business was larger in countries that implemented stricter lockdowns. New Zealand introduced relatively strict social distancing measures and trading restrictions and did so earlier than Australia and the UK. As a result, New Zealand saw a larger fall in small business revenues during the height of the crisis. All gatherings were cancelled, public venues were closed, and all businesses except essential services were shut.

The UK also introduced broad-ranging stay-at-home orders, restricting all non-essential activity in late March. Australia locked down a little later and the national lockdown was not as hard as New Zealand. Many construction, manufacturing and retail businesses were able to keep operating. As a result, the initial impact to small business revenues in Australia was milder than the other two countries.

In addition to falling revenues, longer payment times also compounded the cash flow stress faced by small business. During the early months of the pandemic, the average time between when a small business issued an invoice to a customer and when the customer paid that invoice increased across Australia, New Zealand, and the UK. The increase was especially sharp in the UK, where it increased by an average of 6.4 days between February and May. This increase meant it took an average of 37.2 days for small business to receive payment for sales they had made.

**Figure 1: Peak to trough fall in small business revenues**

% change, year-on-year



**27% ↓ United Kingdom**

At peak, small business revenues fell by 27% in the United Kingdom



**40% ↓ New Zealand**

At peak, small business revenues fell by 40% in New Zealand



**11% ↓ Australia**

At peak, small business revenues fell by 11% in Australia

## 1.2 Small businesses were forced to shed jobs through the crisis

### Figure 2: Peak to trough fall in small business jobs

% change from pre-crisis to trough



12% ↓ **Australia**

At its peak in mid May, Australia saw the largest loss of small business jobs, with losses of 12% from pre-crisis levels.<sup>1</sup> This may be due to the narrower coverage of its wage subsidy scheme (JobKeeper) compared to other wage subsidy schemes. JobKeeper excludes some workers, such as short-term casuals. The bulk of these job losses occurred early in the crisis – in late March and early April.



7% ↓ **United Kingdom**

In the UK, job losses have been more gradual and continued into July, with losses of 7% compared to pre-crisis levels.

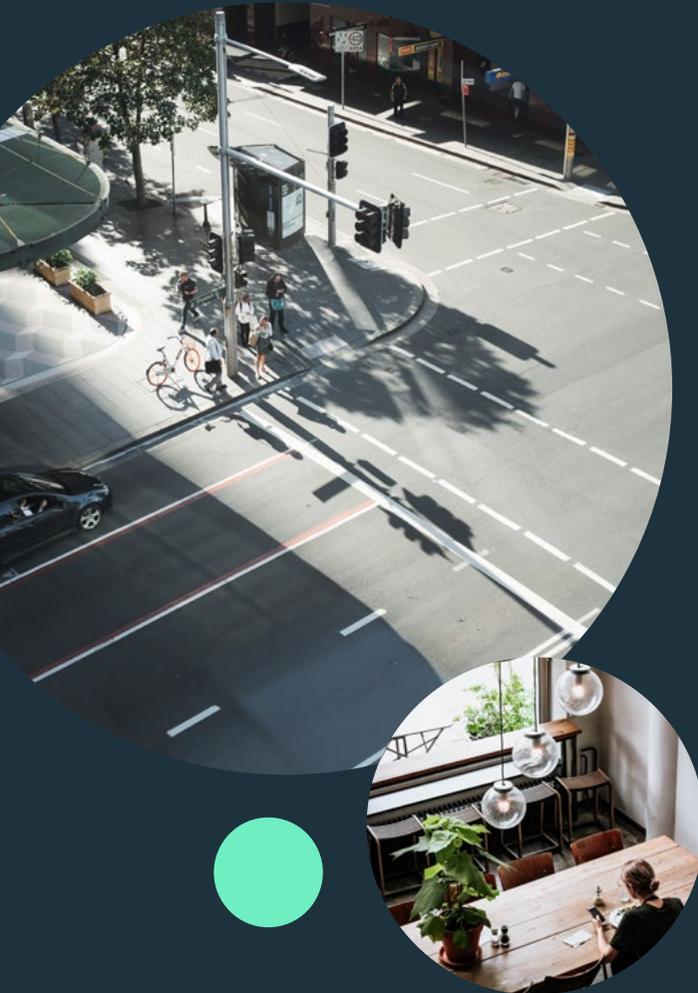


5% ↓ **New Zealand**

New Zealand saw the mildest job impacts – small business jobs were 5% lower than pre-crisis levels in April (the largest fall observed in New Zealand to date). New Zealand was also the first of the three countries to introduce a wage subsidy.

Note: <sup>1</sup>We use the level of employment in the first week of March as 'pre-crisis'.

## 1.3 Small businesses were hit harder than large businesses



Small businesses were more affected by COVID-19 than large businesses. In Australia, small business saw job losses 50% larger at peak in April than did big businesses.<sup>2</sup> In New Zealand job losses were 25% larger on average over April for small business.<sup>3</sup> In the UK, small business job losses look to have been as much as twice as large as losses for big businesses.<sup>4</sup>

### Small business in the US hit hard

This report does not feature Xero subscriber insights for small business in the US. However, similar measures of small business revenues, from other research sources, point to large impacts on US small business. The United States Census Bureau conducted a weekly survey of small business between 26 April 2020 and 27 June 2020. This survey covered a range of topics including how revenues were being impacted. Small business was asked In the last week, did this business experience a change in operating revenues/sales/receipts, not including any financial assistance or loans? In the first survey in late April 74% of respondents reported a decrease in revenue in the previous week. Over the next nine weeks this gradually fell but was still 43% in the final week of June.<sup>5</sup>

These impacts on revenue are also confirmed in Xero's own survey-based research of how small business owners are being affected by the crisis.

- A Xero-commissioned survey of over 500 US small businesses found that 55% saw COVID-19 as a high or very high threat to their business in July. This is below the peak of 64% in April but is an increase from 49% in June and likely reflects the impact of a resurgence of cases on business confidence.
- Businesses are still being impacted by reduced income (48%), fewer customers (45%) and less work available (36%). However their focus has shifted from social distancing and staying at home to minimising expenses (up 5 percentage points to 30%), preparing for when this is over (up 7 percentage points to 24%), and supporting staff and focusing on their wellbeing (up 5 percentage points to 10%).
- Small business in Canada appear to be less concerned than in the US with 45% of small business believing COVID-19 was a high or very high threat in July, a decrease from 56% in June.

## SARS experience helps Asia respond to COVID-19

Some economies in the region have navigated the challenges of the virus better than most, potentially reflecting their previous experience with the 2003 SARS outbreak. This includes South Korea, Taiwan, Vietnam, Thailand, Malaysia, Hong Kong and Singapore where retail sales have begun to recover to varying degrees from the crisis lows.<sup>6</sup>

In some countries however, such as India, Indonesia and the Philippines<sup>7</sup>, infection rates remain high. These countries experienced sharp contractions and continue to struggle to contain the virus. For example in April, industrial production fell by around two-fifths in India and the Philippines.

A Xero-commissioned survey highlights that Singaporean small businesses see COVID-19 as a threat. At peak, 89% of businesses saw COVID-19 as a high or very high threat. This had reduced to 60% by July. Many Singaporean small businesses have been focusing on their online efforts to adapt.



<sup>6</sup> Reserve Bank of Australia. *Statement on Monetary Policy*. August 2020.

<https://www.rba.gov.au/publications/smp/2020/aug/pdf/statement-on-monetary-policy-2020-08.pdf>

<sup>7</sup> Reserve Bank of Australia. *Statement on Monetary Policy*. August 2020.

<https://www.rba.gov.au/publications/smp/2020/aug/pdf/statement-on-monetary-policy-2020-08.pdf>

## 2.0

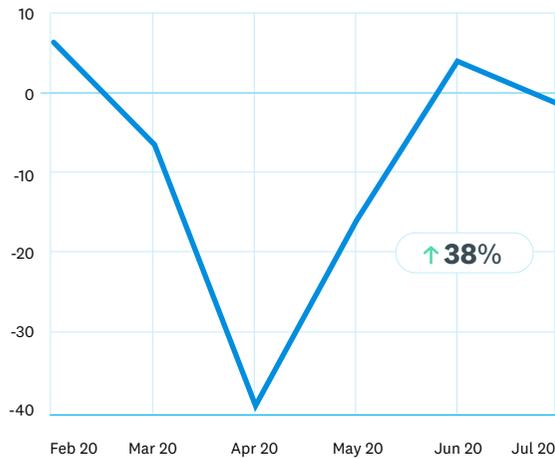
# V, U, or W: Small business have started an uncertain recovery

As public health restrictions have eased, small business, especially those in Australia and New Zealand, have seen an improvement in revenue and have started rehiring. But the impacts have been deep and it will take many months, even years, for small business to return to pre-COVID-19 trading conditions. The recovery is also being interrupted in some countries and regions as the impact of second waves and a subsequent return to some trading restrictions makes for a stop-start recovery process. The pace of recovery is also varied as the health and border restrictions inflict an uneven impact on sectors and regions. Small business in all three countries have seen revenues recover from their lowest point, as the first round of lockdowns lifted from May.

## Figure 3: Small business revenue growth

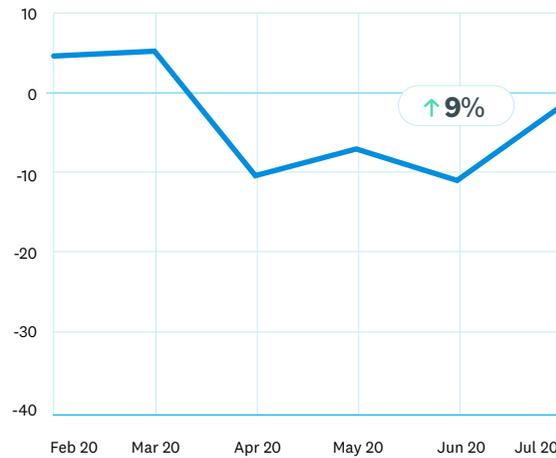
%, year-on-year

### New Zealand



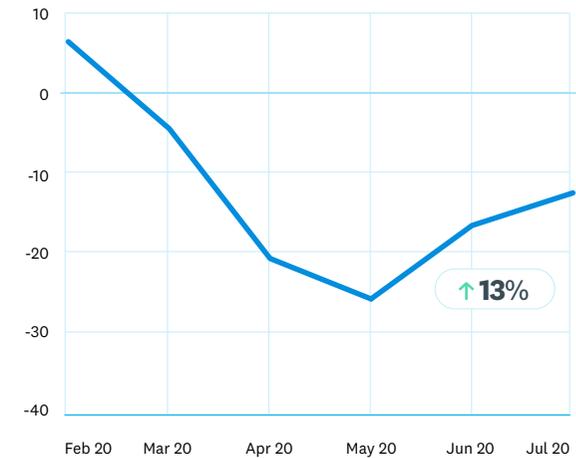
New Zealand began to reduce restrictions from its first round of lockdowns from late April, and moved down to its lowest level on 8 June.<sup>8</sup> New Zealand saw revenue increase 38% between April and July in subsequent months, so that by July it was just 2% below the level it had been a year ago. The country has since faced new health challenges and the impact is yet to be evaluated.

### Australia



In Australia most states began lifting social distancing measures in mid to late May. But since then there has been a second wave of the virus in Victoria, Australia's second most populous state, resulting in a move to stage 4 restrictions in August. Victorian small business saw the largest impact on revenue in July: 3.2% lower than a year ago, compared to 1.9% lower for Australia overall.

### United Kingdom



The UK began lifting restrictions in June (e.g. for construction and manufacturing) and July (for hospitality), reflecting lower case numbers. As restrictions were lifted revenues recovered 13% between May and July. But it has also had to re-introduce some restrictions in major cities including Leicester and Manchester.

<sup>8</sup> New Zealand Government. *Alert system overview*. 2020 <https://uniteforrecovery.govt.nz/covid-19/covid-19-alert-system/alert-system-overview/>

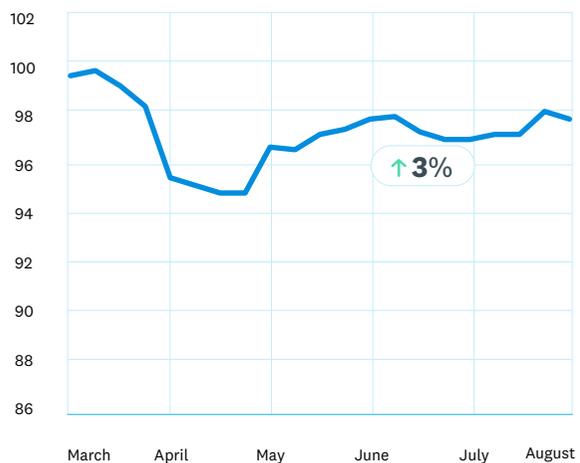
Small business in Australia and New Zealand have also shown tentative signs of rehiring people. However, growth in jobs has mostly lagged behind the recovery in revenue, as employers appear to have waited for conditions to stabilise before hiring again.

Like revenue, jobs may also face a stop-start path to recovery as localised lockdowns affect business confidence, even outside the locked-down zones, about hiring more staff.

## Figure 4: Small business jobs growth

Index, pre-crisis=100

### New Zealand



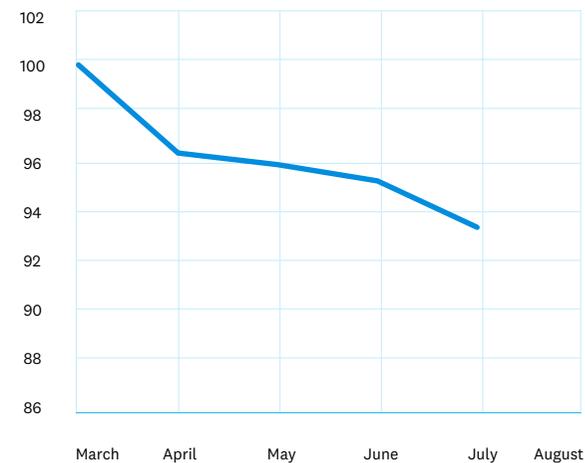
Small business jobs in New Zealand picked up after their trough in mid April and are now more than 3% higher than at the lowest point. However, small business jobs declined again in mid June. This could be due to the tightening of eligibility criteria for the wage subsidy which also occurred in mid June. More recently, jobs have recovered to be up 1% higher by the end of July compared to June.

### Australia



In Australia, small business hiring picked up in June, a month after the turnaround in revenue and was 6% below its pre-crisis level by the end of July. But the pace of jobs growth slowed in July, leaving jobs up just 0.5% in the month. This slowdown in national jobs growth was, in part, due to a 2.5% fall in jobs in Victoria after Melbourne returned to stage 3 restrictions.

### United Kingdom



In the UK, small business continue to shed jobs which fell a further 2% in July to be 7% lower than the pre-crisis level.



# Staying power

## Meet the Australian family still in business after 180 years

With perseverance running in the family blood, this sixth-generation wine business has weathered all the ups and downs that 180 years can bring.

With more than 2,000 wine brands on the Australian market, winemakers must work hard to stand out amid a sea of competitors.

Corrina Wright, winemaker and director of longstanding McLaren Vale vineyard, Oliver's Taranga, believes storytelling is essential to winning a customer's heart.

"You need to have an authentic story. Yes, you have to make good wine... but people buy into the story," says Corrina.

And boy, does Oliver's Taranga have a story.



The family behind Oliver's Taranga (from left): Tex, Brioni Oliver, Mikey, Corrina Wright, Don Oliver and Sam Oliver.



“Our guy threw a dart at the map when he bought it from Scotland. He didn’t know what he was getting, but he got lucky,”

Over 180 years of continuous operation, six generations of Olivers have steered the business through pandemics, wars, depressions, recessions and all the ups and downs that come with farming.

The dynasty began in 1839 when William and Elizabeth Oliver set sail from Scotland to start a new life on a parcel of land in McLaren Vale, South Australia.

“Our guy threw a dart at the map when he bought it from Scotland. He didn’t know what he was getting, but he got lucky,” explains Corrina’s uncle, Don Oliver, a seasoned viticulturist who used to ride bareback on a Clydesdale while helping his father and grandfather on the farm after school.

The Oliver family take great pride in sharing the stories of their pioneering ancestors who grew wine grapes and other fruit on the property named Taranga before irrigation systems were invented.

An old, handwritten diary reveals the impact of the 1918 Spanish flu, with Corrina’s great-grandmother expressing sadness at her

brother succumbing to the virus after serving in World War One.

These days, the family honours the previous generations by sharing their story with customers. The label’s Ruthless Ruth Liqueur Muscat is named after Ruth Oliver, the formidable matriarch who kept the business afloat during the Depression.

Like previous generations, the family’s resilience has recently been tested. Just as their ancestors kept the business alive during the Spanish flu pandemic, the current owners rose to the challenge of trading through COVID-19.

### Passing the COVID test

With restaurants closed, cellar doors shut, and the Chinese export market decimated, Australia’s wine industry was hit hard by COVID-19.

Fortunately, the Oliver’s Taranga label is stocked in national liquor chains, with strong bottle shop sales supporting the business’s bottom line.

“Diversifying your business helps with resilience. We’ve got our online market, cellar door market, restaurants, retail, and export market”, says Corrina, who explains that vineyard operations were also impacted by overseas backpacker staff returning home. To address the shortfall in pickers, cellar door staff were redeployed to the vineyard.

“The trickiest thing was keeping up with the changes. We were looking at our budgets and cash flow daily, instead of weekly or monthly,” explains Corrina.

Having an established ecommerce platform and subscription club helped the business to sell directly to customers while other avenues weren’t available due to lockdown restrictions.

Once the initial storm had subsided, the team used the quieter period to review, plan and take a deep dive into the business.

“I’m normally on the road hosting dinners and judging wine shows. Instead, we’ve taken the time to work on the business, rather than in the business,” Corrina reflects.

### Leaders in the field

From coaching the local football team to sitting on wine industry committees, being involved in the community and winemaking industry is a family value carried forward by each generation.

Apart from making wine for Oliver’s Taranga, Don is proud of growing premium grapes for the prized Penfolds Grange, an achievement that offers both personal and financial payoffs.

Don attributes his success to a combination of luck, hard work and having a good head for business.

“Both my grandfather and father were good workers. You can’t farm for fun. You have to farm to make money first, then you can have fun. You’ve got to be profitable first,” says Don.

### A bright future

Even though Oliver’s Taranga has a long heritage, the current brand custodians maintain an eye on the future by planting new grape varieties in response to evolving trends.

“Consumer tastes change, so we’ve been at the forefront of planting new varieties. In the 1970s we were the first to plant Chardonnay in the region. We’re now working with Italian varieties like Vermentino and Fiano,” says Corrina.

Don notes that the business’s 180-year run is no accident. Each generation has done its best to keep the land in good nick so the next generation can run a prosperous, sustainable business.

“We pride ourselves on looking after the land... we’re banking on a long-term future,” says Don, before Corrina finishes her uncle’s sentence: “...for another six generations!”



## 3.0

# Survivors vs Thrivers: Not all small businesses have been affected equally

Not all businesses were affected equally by COVID-19. Industries that rely on face-to-face interactions, such as hospitality, have been hardest hit. While COVID-19 has affected all businesses, some have managed to thrive. Across the three countries, one in six small businesses grew their revenues faster than 30%.

## 3.1 Hospitality small businesses have been very hard hit

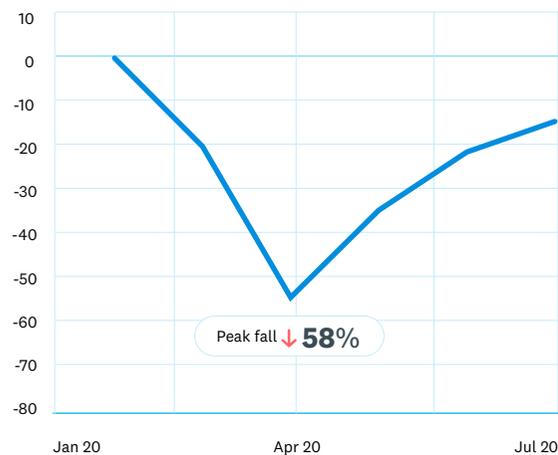
The effect of lockdowns has not been equal across industries. Some industries – particularly those that were forced to close for longer and face ongoing restrictions, such as hospitality – have been significantly affected. Industries that could adapt to remote working, such as professional services, or were classed as essential, have been more resilient to the crisis.

Hospitality firms have been among the hardest hit across all three countries. Social distancing measures prevented customers from eating in at cafes and restaurants, and completely closed businesses such as bars, pubs, and clubs. In some countries, such as Australia, hospitality businesses were able to adjust, for example by providing takeaway. But, for many, public health restrictions largely prevented them from operating their business. The magnitude of this effect is clear in the Xero SBI data. Across all three countries, hospitality businesses lost well over half of their revenues at the peak of the crisis, with peak losses of 58% in Australia, 76% in New Zealand and 62% in the UK (see figure 5). The large impact on these businesses has also translated into more lost jobs. Across the three countries, job losses in hospitality have been around three times larger than job losses overall.

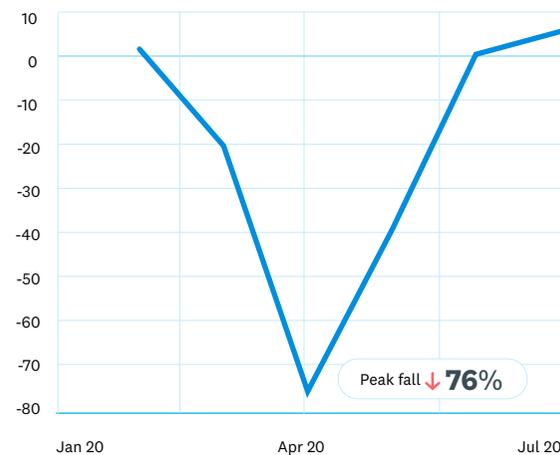
**Figure 5: Small business revenue growth for hospitality firms**

%, year-on-year

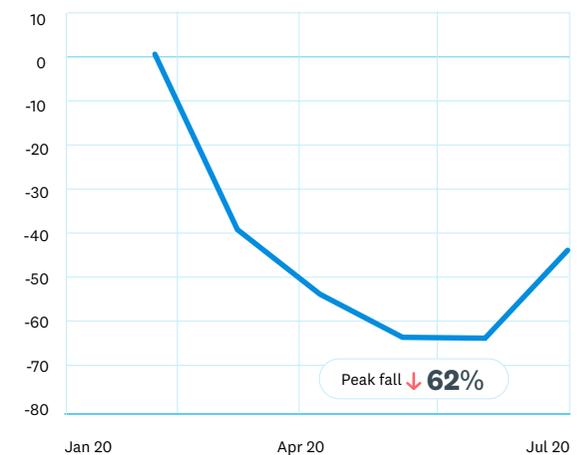
### Australia



### New Zealand



### United Kingdom





## The hospitality sector showed signs of recovery as public health measures were lifted.

The initial recovery in New Zealand was particularly striking. Nearly all public health restrictions from the first round of lockdowns were lifted by 8 June in New Zealand. Following the easing of social distancing measures, revenues for hospitality firms were higher in July 2020 than in July 2019 – a turnaround from the 76% fall that occurred during the height of the crisis in April. However, not all hospitality businesses have recovered. Small businesses that rely on international tourism still appear to be experiencing significant revenue losses. For instance, small business in Queenstown, which is an international tourism destination, still had revenues 13% lower in July 2020 than a year earlier.

In contrast to hospitality, across all three countries the professional services industry has seen less significant revenue declines, with peak falls of 8% in Australia, 20% in the UK and 21% in New Zealand. Small manufacturing businesses performed better than customer service based sectors. The manufacturing industry was the fastest growing industry across all three countries in July, growing 11% in Australia from a year earlier, 13% in New Zealand and 1% in the UK.

## 3.2 Some businesses thrived through COVID-19

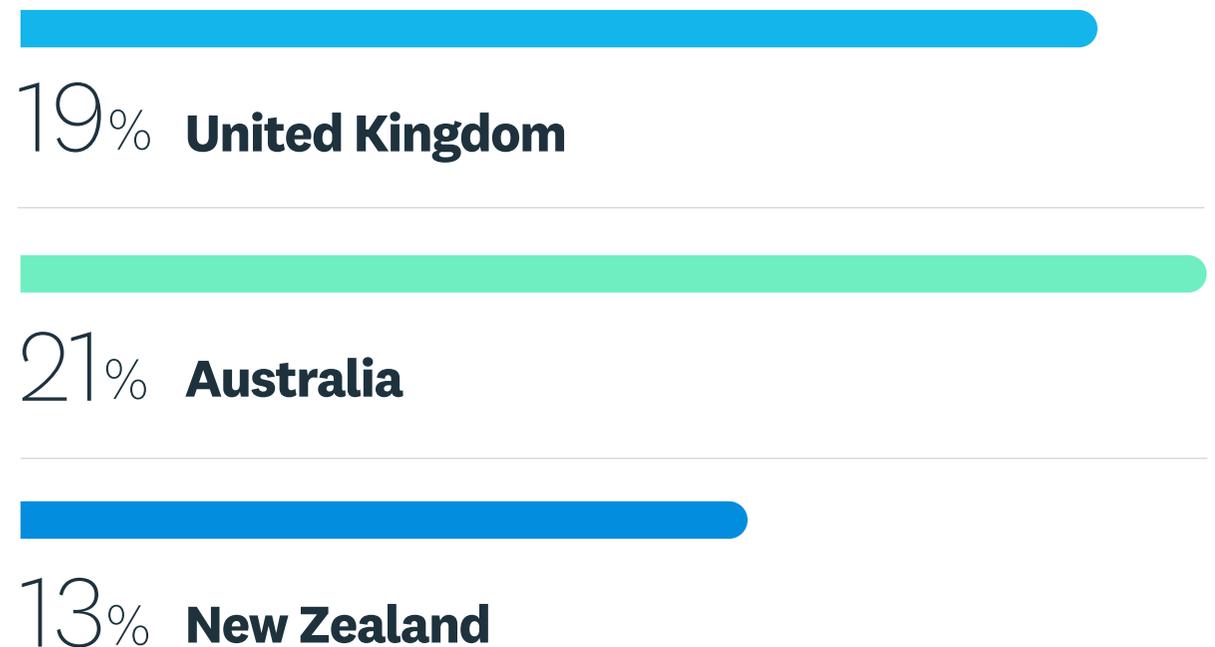
Most businesses were hard hit by COVID-19, but some managed to maintain stable revenues and others even managed to record strong growth.

At the height of the crisis, in April, one in five small businesses in Australia and the UK managed to grow their revenues by 30% or more compared to 12 months earlier (see figure 6). In New Zealand, 13% of small business managed to do so. This is a significant number of businesses. However, given the scale of the crisis, this is lower than average: in a typical month, a little under a quarter of small business grow their revenues by 30% or more compared to 12 months earlier.

Of the businesses that managed to thrive, many were in industries that could adjust to working from home. For example, more than one-fifth of the small businesses experiencing strong revenue growth during COVID-19 were in professional services.

**Figure 6: Share of small business with growth exceeding 30%**

%, share of firms, April 2020



# 4.0

## **Strategies for success: Government lifelines and digital pivots**

The COVID-19 crisis required small business to adapt. Two key strategies that we observed small business adopting are taking advantage of government support such as wage subsidy policies, and adopting digital tools to help manage their business and take advantage of online opportunities.

## 4.1 Government policies provided significant support to small businesses

One of the lessons from previous recessions is that employment losses take a long time to be reversed. Early in the COVID-19 crisis, governments in all three countries introduced broad ranging wage subsidy policies to support small business employment and keep people connected to their workplace.

These policies were designed to help businesses retain staff while they were in hibernation due to social distancing measures (see appendix A for scheme details).

These policies appear to have been an important support for the small businesses that accessed them. We estimate that well over half of small businesses received support across the three countries, with as many as three-quarters receiving support in New Zealand (see figure 7). Xero SBI data indicates that, across March to July they employed over 60% of small business employees in Australia, over 70% in the UK, and over 80% in New Zealand.

### Figure 7: Share of firms receiving wage subsidy payments

%, share of firms, over March—June 2020



These wage subsidy policies have been broad-ranging and appear to have been a material support to small business jobs.

Government grant and loan programs also helped small businesses cover fixed costs, such as rent and utilities, during the shutdown period, and prepare for the recovery period.

- In the UK, the Bounce Back Loan Scheme and the Coronavirus Business Interruption Loan Scheme were introduced to provide small loans to small business.
- In New Zealand, the Business Finance Guarantee Scheme provided government guarantees for 80% of the risk for new loans to small business.
- In Australia, the government introduced the SME Guarantee Scheme to guarantee half of new loans from eligible lenders to small business. Other measures, such as forbearance from lenders and rent reductions or waivers also helped small business preserve cash. State Governments also introduced grants for businesses to cover shutdown impacts.

Quickly withdrawing support, particularly if the economy has not sufficiently recovered, could cause disruption for small business. Due to the large uptake of the support packages by small business, eventual reductions will need to be done cautiously and occur once the recovery becomes more sustainable.



## 4.2 Digital tools helped small business adapt to new trading environments

COVID-19 has highlighted the importance of digital technology in running a business. For many businesses, remote working was the only option for their staff because of social distancing measures which instructed people to work at home if they were able to. Others had to adapt their business models to serve customers via online stores or delivery apps.

An important and growing area of business digital enablement is app use. The productivity improvements that apps enable were also particularly important during the crisis, to help businesses continue to trade. Apps let small business automate a range of manual, often paper-based business processes, improving their productivity in the process. The typical business with staff needs to conduct 50 to 70 different activities to serve their customers and manage their affairs.<sup>9</sup> Apps can help automate some of this administrative burden.

Improved resilience and flexibility is not the only benefit of digital enablement. Past research by Xero SBI and AlphaBeta has shown that digitally enabled small business in Australia grow faster than non digitally enabled businesses. In the 2017-18 financial year, Australian firms on Xero using apps grew revenue by 5.5%. That compares with revenue growth of just 3.6 percent for firms on Xero with no connected apps.<sup>10</sup>

A Xero SBI and AlphaBeta report in September 2019 found that technology and business growth tend to be highly correlated. In Australia, small businesses with higher ICT spending tended to have 3.5 percentage points faster revenue growth than those with lower ICT spending growth. These high-spending small businesses also tended to have 5.2 percentage points faster employment growth than peers with lower ICT spending growth.<sup>11</sup>

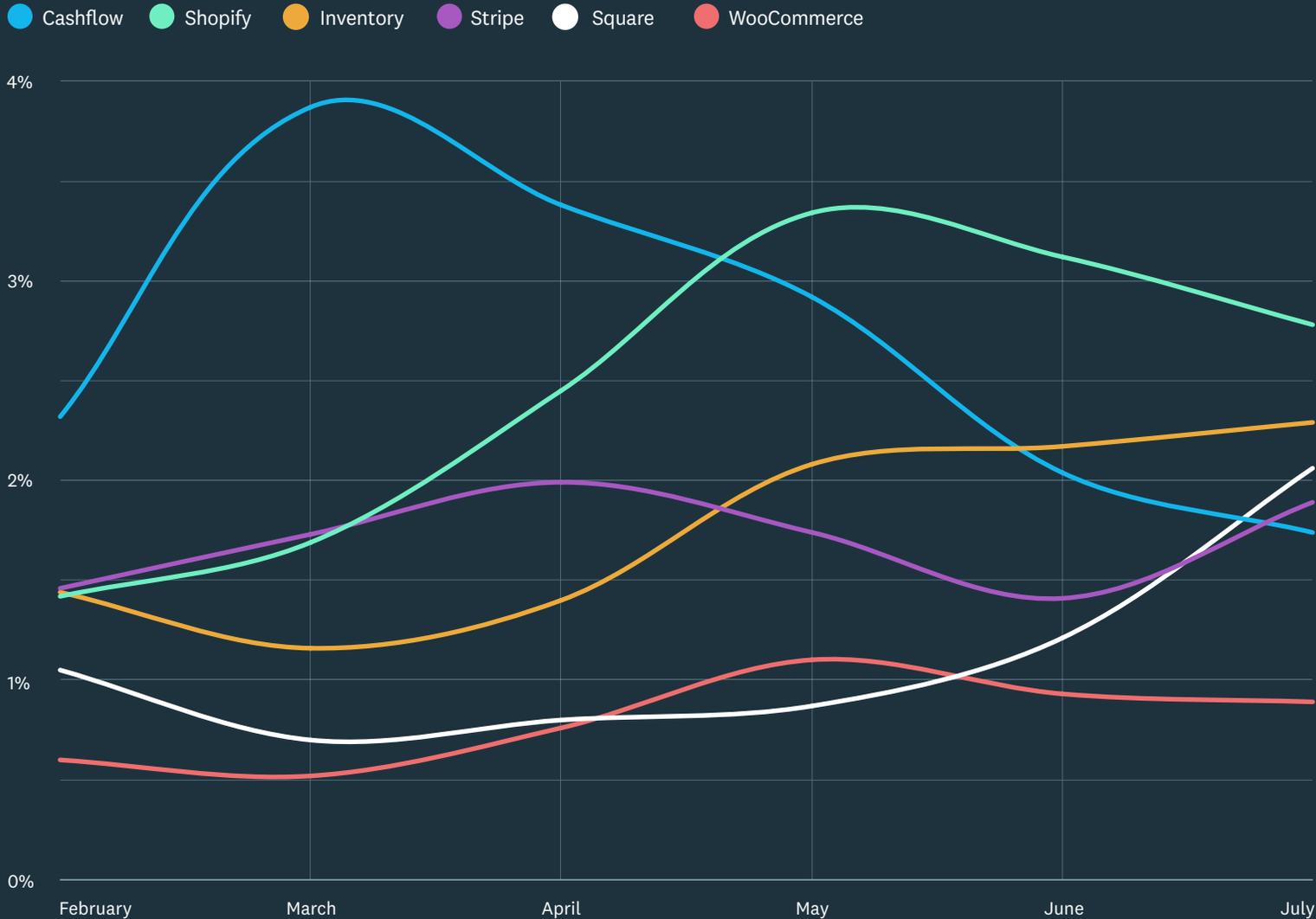
Similarly, external economic modelling by Xero and economic consultancy NZIER has shown that uptake of cloud technology would deliver large productivity gains, and boost employment and wages.<sup>12</sup>

To understand how app adoption and digital enablement helped small business through COVID-19, we compared the outcomes for Australian, New Zealand and UK businesses with apps from the Xero app marketplace connected to their Xero account with outcomes for those businesses that did not have apps connected.



<sup>9</sup> & <sup>10</sup> Xero & AlphaBeta. From little things big things grow: *How digital connectivity is helping small business thrive*. 2018. <sup>11</sup> Xero & AlphaBeta, *Wired for success: The impact of technology spending on business*. Sept 2019. <https://www.xero.com/small-business-insights/wired-for-success-the-impact-of-technology-spending-on-small-business-outcomes> <sup>12</sup> Xero. *Technology critical to NZ small business resilience and long-term success*. July 2020. <https://www.xero.com/content/dam/xero/pdf/media-release/technology-uptake-critical-to-nz-small-business-resilience-and-long-term-success.pdf>

### Figure 8: Searches in Xero's app marketplace Feb to July 2020



Source: Xero

Digital enablement was critical during the crisis, and small business adopted apps accordingly. The share of businesses connecting new apps through the Xero marketplace was almost double in April 2020 than in an average month.<sup>13</sup> Adoption was driven by professional services firms, with well over twice as many small business in this sector adding new apps as the crisis hit than in an average month.

Across the board, from analysis of the searches made by small businesses in the Xero app marketplace from February to July, we can see that cash flow reporting and management apps, and apps for ecommerce – such as Shopify and Stripe – were particularly popular.

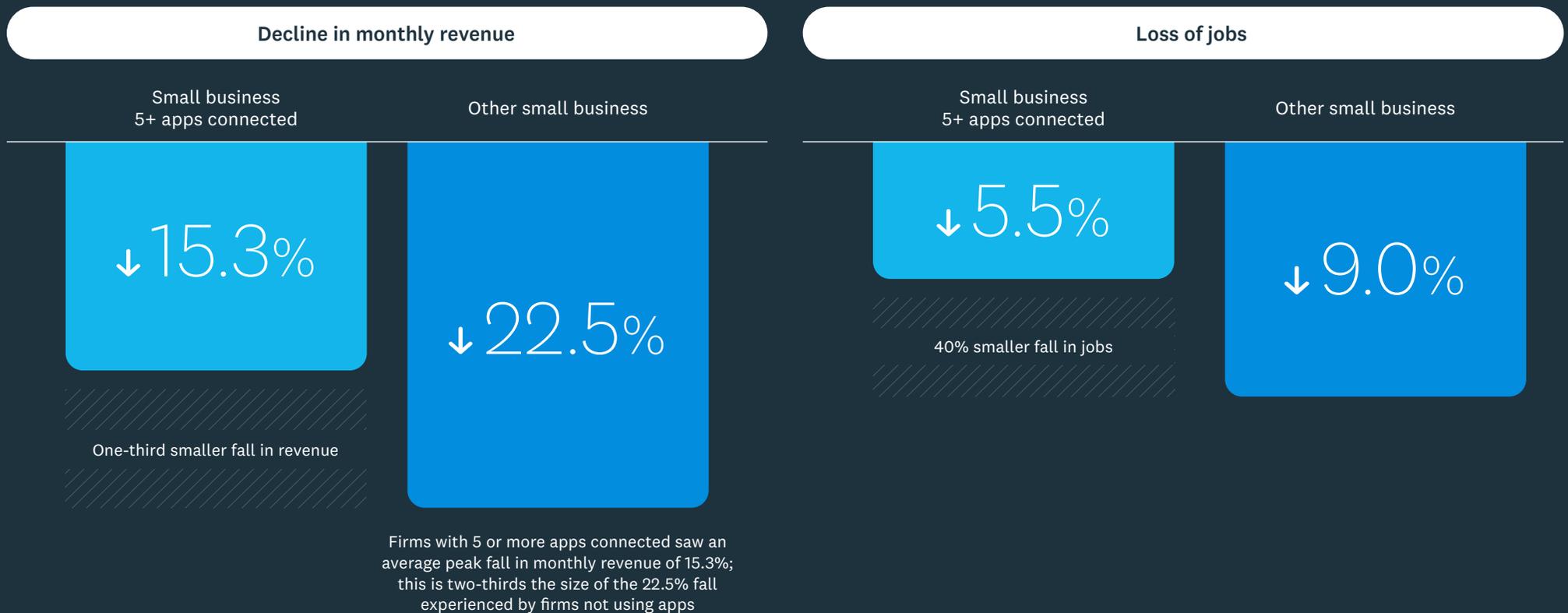
<sup>13</sup> Other research has similarly highlighted the importance of digital technologies. A survey of small business in New Zealand by Xero and NZIER found that nearly three-quarters of small business had to make quick changes to the technology they use to keep their business functioning during lockdown.

We can also see the importance of digital enablement during COVID-19 in the Xero SBI data. When we compared businesses that were using apps to manage their business before the crisis to those that were not, we found that the types of small businesses using apps saw revenue declines during the crisis that were 12% smaller than other small businesses. These businesses were also better able to retain staff: job losses for digitally enabled small businesses were 12%

smaller than for small businesses that were not digitally enabled. Similarly, the types of small businesses that heavily use apps were even more resilient. When we looked at small businesses with five or more apps connected to their account, we saw that these types of businesses had revenue falls that were one-third smaller and job losses 40% smaller than other small businesses through the COVID crisis.

## Figure 9: Impact on small business revenues and jobs

Peak impact across Xero SBI countries, businesses with 5+ apps connected versus those without



**M.MANZE**  
THE NOTED EEL & PIE HOUSES



## Resilience, with a side of mash

The M.Manze Pie and Mash flagship Tower Bridge shop, one of three across wider London, has stood strong since 1902, weathering all the storms that more than a century in business can bring: the 1918 Spanish flu pandemic, World Wars I and II, the Great Depression, the Brixton riots (during which one store burned down), the global financial crisis, and now COVID-19.

If there's one word that springs to mind – aside from 'delicious' – when you consider M.Manze Pie and Mash, it's 'resilience'.

A family business of 118 years and counting, it's now in the hands of the third and fourth generations - founder, Michele Manze's grandson, Rick Poole, his daughter, Emma Harrington, and Emma's husband, Tom. But the challenges and lessons learned during the more trying years of the business' history, including the Spanish flu pandemic, are just as relevant now as they were 100 years ago.



Third and fourth-generation business owners, Rick Poole and his daughter, Emma Harrington.

“When the shop next door in Tower Bridge Rd was hit by a bomb during World War II, our shopfront imploded but the staff turned up for work as usual, swept up the debris and opened the same day!

While the family don't have any records from the Spanish flu pandemic, Tom says they can be sure of one thing. “We would have operated in pretty much the same way as we are during this pandemic: serving the customers hot takeaway food out of the large open windows, and making sure the staff and customers were as safe as possible. Manze staff have always been stalwarts and would have used that attribute in those worrying times.”

### Keep Calm and Carry On

Another attribute they've displayed during trying times is persistence, the British adage, “Keep Calm and Carry On,” providing a guiding light for the family and their staff, particularly during World War II.

“When the shop next door in Tower Bridge Rd was hit by a bomb during World War II, our shopfront imploded but the staff turned up for work as usual, swept up the debris and opened the same day! This just proved that the ‘Manze spirit’ would overcome anything,” says Tom.

Known for its mouthwatering handcrafted pies, mash, green liquor and eels, the superb quality of these traditional English dishes hasn't changed in 100 years, but the business approach has. Harnessing the power of social media when Facebook was still a newcomer, Manze's Pies and Mash has built up a loyal following. And by offering a chilled delivery service online for the past 15 years, a service which has been working overtime this year, the legendary cuisine can reach every corner of the UK.

“We are very lucky to be virtually recession-proof,” says Tom. “Our food is fantastic value for money, and we've always served hot, fresh, and that satisfies hungry appetites and provides the public with a substantial meal that gives them, as well as us, the strength to battle on.”

And battle on they have, particularly during another tough season. In 1985 the Peckham branch burnt down during the riots in the area, and they were unable to trade for several years.



But, out of a sense of loyalty to their staff, they managed to transfer all their Peckham employees to the Tower Bridge Road store, keeping each and every one of them in a job.

“Fortunately, our loyal customers followed us too, and we survived with just one shop until we managed to reinstate Peckham to its former glory and move the staff back,” says Tom. “Our staff repaid this loyalty by working so hard when we reopened the shop in July 1990.”

### From the past, to the future

In 1997, the family opened the newest Manze’s branch in Sutton, Surrey. “From the day it opened, it’s grown from strength to strength, giving the people of Surrey a taste of London.”

Through all the peaks and troughs that more than 100 years in business can bring, Tom’s advice for small business owners

“Cash is king. When times are good, build up reserves so you can ride the storm.”

struggling through the current downturn is simple: “Cash is king. When times are good, build up reserves so you can ride the storm. Downturns are only temporary but it’s very hard to predict how long they’ll last. And do whatever you can to stay open and still trade. You need your customers to not forget about you and for them to know they can rely on you.”

And despite these trying times, Tom and Emma are confident that the future’s still bright, with big plans for the family business.

“We took over last year and have spent the last 12 months or so learning the business. We’re now keen to expand further through opening new shops – we believe we’ve got exciting years to come!”



5.0

# Appendices

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# Appendix A

## Details of wage subsidy schemes

- New Zealand's Wage Subsidy Scheme was announced early in the crisis, on 17 March. The scheme provided payments of \$585.80 for full-time employees and \$350 for part-time employees in firms that experienced a 30% or more fall in revenue. The scheme supported more than 1.7 million employees, at a cost of more than NZ\$13 billion (as at July 2020).<sup>14</sup>In mid June this was extended, for firms with a 40% or more fall in revenue, for another 8 weeks. A further 2 week wage subsidy was introduced when Alert Levels were raised in mid-August that would cover employees until mid-September (depending on application dates).
- The UK's Coronavirus Job Retention Scheme was announced on 20 March and was extended to cover self-employed workers on 27 March. The scheme allowed employers and employees to agree to stop work temporarily but stay employed. These furloughed employees were paid 80% of their regular earnings (up to £2,500 per month) by the government. At its peak, furlough payments covered 9.5 million UK employees, with £29.8 billion in claims made.<sup>15</sup>This scheme has also been extended until October with the ability for furloughed workers to return to work part-time. Employers must also start to make a contribution from August, which rises each month until the scheme ends in October.
- JobKeeper, Australia's wage subsidy scheme, was announced on 30 March. The scheme was available to firms that expected their turnover to decline by 30% or more. They could claim \$1500 per fortnight for every permanent employee, or casual employees that had been regularly employed by the firm for longer than 12 months. Short-tenure casual employees – who comprise around two-thirds of small business casual employees in the Xero SBI data – were not eligible for JobKeeper. More than 920,000 businesses enrolled in JobKeeper, covering around 3.5 million people, at an estimated cost of A\$70 billion.<sup>16</sup> This scheme has now been extended to March 2021 but with a two-tier payment system for full-time and part-time.
- Other countries have introduced similar policies. The US introduced the Paycheck Protection Program, which provided for low-interest loans; the loan could be partially or entirely forgiven if the business kept its employment and employees' wages stable. Canada introduced the Emergency Wage Subsidy, which provided a subsidy of up to three-quarters of employees' wages.

# Appendix B

## Data sources and protection measures

### Xero SBI data

Data for this report comes from a range of sources.

The principal source of small business data is Xero, a small business platform that supports online accounting and a range of other applications.

Xero is a responsible custodian of customers' sensitive data and does not release any data that could identify individual businesses.

The data has been weighted to reflect the small business market by size and sector. The data used was aggregated and anonymised to ensure the privacy of Xero subscribers, and the people they interact with, including customers, suppliers and employees.

The aim of Xero SBI is to create insights to help inform decision makers in support of the small business economy as a whole.

### Voice of Customer data

Xero has partnered with Perceptive to complete an anonymous and unbranded, nationally representative small business market study across Australia, New Zealand, the United Kingdom, the United States, Canada and Singapore. The study has been running since May 2018, and has transitioned into an always-on study since December 2019. The study measures Xero brand health performance against that of our competitors, and tracks brand perceptions over time. The study respondents are all small business decision makers for businesses with less than 50 employees.

<sup>14</sup>Ministry of Social Development. *Income Support and Wage Subsidy Weekly Update*. New Zealand. 12 June 2020. <sup>15</sup>HM Treasury. Flexible furlough scheme starts today. United Kingdom. July 2020. <https://www.gov.uk/government/news/flexible-furlough-scheme-starts-today>

<sup>16</sup>The Treasury. *The JobKeeper payment: Three-month review*. Australia. July 2020 [https://treasury.gov.au/sites/default/files/2020-07/jobkeeper-review-2020\\_0.pdf](https://treasury.gov.au/sites/default/files/2020-07/jobkeeper-review-2020_0.pdf)

# Appendix C

## Methodology for Xero SBI data

### Jobs growth and wage subsidies

We measure the number of small business jobs by drawing on payslip data from firms that use the Xero payroll product. We consider a job any payslip that involves non-zero earnings for the relevant period. Jobs growth is measured by calculating within-firm changes in the number of unique payees. As with our methodology for revenue growth, this approach means a firm must report in both current and previous period to be included. It means we exclude the impact of firms that shutdown entirely due to COVID-19 restrictions, so our figures are a conservative estimate of the true decline. This approach abstracts from changes in Xero's subscriber base.

We remove what appear to be erroneous payslips (i.e, those with very small or very large wage rates per hour) that are unlikely to represent jobs. For Australia and New Zealand, we construct weekly estimates of jobs growth using the subset of employees that are paid weekly. This equates to around 54% of employees in Australia and 65% in New Zealand. In the UK, we use monthly estimates, as very few employees are paid weekly.

We estimate the total number of jobs lost using data on the level of employment in small business (those employing fewer than 20 employees) from the Australian Bureau of Statistics, Statistics New Zealand, and the UK Office of National Statistics.

These statistics are as at June 2019 for Australia, February 2019 for New Zealand, and January 2019 for the UK. We apply our estimated percentage loss in small business jobs to these estimates of total jobs.

We measure the wage subsidy payments received by firms (JobKeeper in Australia, Wage Subsidy Scheme in New Zealand, Coronavirus Job Retention Scheme in UK) by observing payments received from taxation authorities. For Australia we identify payments from the Australian Taxation Office that are multiples of the subsidy payment (\$1500). In New Zealand and the UK, we identify payments by identifying transactions containing text relevant to the subsidy (i.e, containing 'MSD COVID' in New Zealand or 'HMRC JRS GRANT' in the UK). This methodology undercounts the number of firms receiving the subsidy, as it relies on firms having their bank account connected to Xero. We calculate these payments as a share of pre-crisis payroll costs by calculating total subsidy payments received on average per firm received prior to 30 June 2020, and comparing that to monthly average payroll costs and revenue for the March 2020 quarter. We use the March quarter average to smooth out some of the monthly variation in revenues and payroll costs (e.g, due to the end of year break in early January).

### Payment times

We measure the time to be paid as the time, in days, between when an invoice is issued to a customer and when it is marked as fully paid in Xero. In calculating the average time to be paid we weight by 1) invoice value, so that larger invoices matter more than smaller invoices, and 2) firm-level sample weights, designed to match the population distribution of small business by industry. We exclude any invoice with a payment time in excess of 12 months.

# Appendix C, continued

## Methodology for Xero SBI data

### Impact of digital enablement

For our analysis of the impact of digital enablement, we split firms into two groups based on whether firms have apps connected to Xero. To measure the impact on jobs and revenue, we use a simple linear regression. We use two regressions: one with firm-level year-on-year revenue growth as the dependent and one with the percentage change in jobs from pre-crisis as the dependent variable; in both cases we use the change to April to measure the initial impact of the crisis on firms. The samples for these regressions are the same as the samples we use for measuring revenue and jobs growth respectively. In each case, we regress the outcome variables on a dummy variable for whether the firm had at least one app connected to their Xero account in February 2020; industry, country and country by industry controls; and firm size controls. The coefficient on the dummy variable for app use measures the difference in outcomes between small business with apps connected and small business without apps connected. We also estimate a version where we use a dummy variable if firms have five or more apps connected. In all specifications, the coefficient on app usage is significantly different from zero at the 1% level (using heteroskedasticity robust standard errors).

### Revenue growth

We measure revenue growth using revenue data drawn from the general ledger of Xero subscribers. This is a measure of revenue using reconciled accounts. For the analysis, we use a sample of Xero subscribers who:

- have a paid subscription to use Xero (i.e, those who were not on a trial)
- have an advisor linked to their Xero account (i.e, an accountant or bookkeeper)
- have reported revenue monthly for the past 12 months
- are not a trust, club or society, or other unclassified organisation

The resulting sample of small business was a high-quality sample of Xero subscribers with 12 months of reliable data available for our analysis.

We calculate growth in aggregate revenue by calculating the weighted average of within-firm growth from month to month. In other words, a firm must report in both current and previous month to be included. We use this within-firm measure of growth because this abstracts from changes in Xero's subscriber base. This means we exclude the impact of firms that shutdown entirely due to COVID-19 restrictions. As a result our figures are conservative. Government stimulus payments (e.g, wage subsidy) may be included in revenue numbers if firms have classified these payments as revenue.



# SMALL BUSINESS INSIGHTS

