



Beautiful
business

Xero's roadmap to recovery for small businesses

The recovery starts now

July 2020



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Foreword: putting digital technology at the heart of the recovery

By Gary Turner,
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We need the UK's small businesses now more than ever.

As jobs are lost, creating new ones will depend on small businesses recovering and rebuilding.

We need small firms to recover right across the UK. How else will the government make good on its election promises and achieve its levelling up agenda?

While many small businesses have been rightly focused on survival, they are looking further down the line. Now is the time to help them to recover and rebuild.

Accelerating to ecommerce

One of the remarkable achievements of so many firms in recent months has been how deftly they have been able to switch their business models to operate differently.

Office workers became home workers, using cloud and other digital technologies. Retail firms discovered new ecommerce or mobile business models within their current offer. Most will never go the whole way back.

A mature post-Covid-19 economy will look different in ways that we cannot yet know. Meanwhile, we remain vulnerable to new coronavirus interruptions for some time to come.

Technology will be critical to help firms get, sell and operate online, be ready for future disruption and to adjust to changing customer patterns.

Small businesses are discovering new digital ways to achieve greater value, scale and resilience. We need to accelerate that.

Many firms have run analogue business models at their core, selling through a traditional face-to-face store or office. With these business models, digital services or channels have been attached at the edge. The coronavirus outbreak tells us that needs to switch, to use technology to make firms more resilient and agile.

Coronavirus has shown that businesses which can put digital delivery at their core will be able to do well in most circumstances.

Digital technology, and especially that which helps firms market, manage and sell online needs to be at the heart of the small business recovery.

Greater support

That is not all. Many small firms need more support, both directly for themselves and by creating a better business environment for them to operate in.

Xero has more than 600,000 small business customers across the country. We see the areas where the Government needs to help create that environment for small firms.

What's more, with the right expertise and experience, we know how to make life a little simpler, more seamless, and smarter for small firms.

That will help create the right conditions to rebuild.

What is Xero doing to help?

Redeploying our resources to help small firms survive and rebuild

Xero provides a cloud-based accounting software service to more than 2.2 million small businesses and their advisors around the world.

We've reacted quickly to the Covid-19 crisis. First, we've redeployed our people and resources to help our customers in any way we can.

We assembled a dedicated response team. We fast-tracked development work on a range of new products and features in areas such as lending, payroll, tax and insights. We've helped small business continuity through pilot programmes like Business Snapshot.

Second, we've created dedicated resources, like the Behind Small Business Hub with crucial information about stimulus packages and more.

We have supported our customers across four areas:

Making the most of the right technology

We are continuously innovating and directing our resources to help small firms make the best use of technology to recover and rebuild:

- making accounting, tax, and payroll more simple, smarter and seamless to free up time using data, AI and machine learning to give small firms deeper insight into their business to make more informed decisions
- supporting small firms to be better prepared and improve their business's resilience
- providing guidance to adopt the right technology to help traditional businesses to move online and start selling through ecommerce

Improving finances and business management

We accelerated development and availability of several tools and pilots to give greater oversight of the most important metrics:

- for instance, the Business Snapshot pilot helps firms view their critical metrics in real time, giving them instant insights into their revenue, costs and profit.
- our short-term cash flow pilot projects bank balances 30 days into the future, showing the impact of existing bills and invoices if they're paid on time

- we're working closely with our app partners to help small businesses connect with the right tools in the Xero app marketplace
- we've created a new cash flow guide with some of our partners to dive into the biggest pain points and solutions
- provided guidance on how to apply for government loan schemes to increase chances of success
- giving firms a good view of their finances to support loan applications
- added new features on statutory sick pay and furlough leave for employees
- alongside this, we've also committed to pay our small business suppliers within 10 days

Acquiring the essential digital skills

Training to support small firms and their advisors acquire and improve business skills:

- advice for small firms on how to create a financial plan and manage payroll
- training and guidance to help small firms acquire the skills to get and sell online
- Xero Learn, a range of courses, webinars and programmes to help deliver financial lessons

Strengthening local business communities

We're developing better insight to deliver greater value for local business communities:

- data on the late payment crisis across the UK
- research to better understand what a world without small businesses would look like
- data on Covid-19 small business employment trends



The roadmap to recovery: our policy recommendations

1. Make the most of the right technology

To help firms reshape their business models, we are calling for the government to:

- allow small firms to write off digital technology investments to help them move online or to remote operations
- increase R&D tax credits and review how it is defined so it includes digital tools such as ecommerce and cloud technology
- appoint a minister responsible for increasing digital adoption and cutting the regulatory burden on small firms
- create a public-private partnership with large tech firms and small business policy makers to hasten adoption of digital technology, with a focus on moving online
- expand the remit of the Small Business Commissioner to accelerate small-firms adoption of technology to transform their business models

2. Improve finances and business management

We are calling for government to:

- set 30 days as standard payment terms for all businesses
- legislate on this issue, and ensure that big businesses pay their small business suppliers on time
- reset the role of the British Business Bank to focus on providing the long-term growth-focused capital that small businesses need
- ensure CBILS and bounce-back loan repayment terms remain flexible so firms can focus on building sustainable long-term businesses rather than paying short-term debt
- provide guidance and support to small businesses to help them repay CBILS or bounce-back loans
- simplify the tax regime for small businesses (and all business)
- increase the VAT threshold to encourage small business growth
- offer a six-month NI holiday to small businesses who hire new employees to ease cash flow issues and promote employment
- help small businesses move to remote and flexible working by extending tax relief to cover all small business employees and reasonable expenses in the next six months

3. Acquire the essential skills

To help small firms get critical skills, we would like to see the government:

- give tax relief to train and reskill business owners in critical digital, financial and business management skills
- improve awareness of and access to digital, financial, and business training, to help firms rebuild
- run a national campaign to encourage all small business owners to work with an accountant that can provide broader business advice
- outsource the provision of advice to existing trusted groups to encourage digital take up

4. Strengthen local business communities

We are calling for government to:

- improve gigabit digital access for everyone across the country
- put a greater focus on how our regional economies can retain and attract the best graduate talent
- ensure that the trend towards remote working benefits towns and cities nationwide
- fundamentally reform business rates as part of a wider review for fairer, simpler business taxes
- make it easier for cafes and pubs to serve food and drinks outside
- allow food and drink stalls in parks during the summer to save pubs
- ease planning restrictions to make it easier for high street units to switch between shops, retail and residential



1. Making the most of the right technology

Covid-19 has demonstrated the need for firms to be able to adapt quickly, and to be able to operate with dispersed or smaller work forces. Some firms have responded remarkably, others have understandably struggled.

As the coronavirus threat will remain with us for some time to come, it is critical to help all firms become as adaptable as they can. For many, this will be to build an online and ecommerce response into the heart of their business.

For some types of firms, it may be easy to see how to do this. Many retailers can look to ecommerce or mobile services. Many office-based firms will think of agile working in a more positive light. For other firms, these answers won't be so easy.

Either way, Covid-19 is accelerating small business technology adoption. In the short-term, relevant digital technology can help small business owners get a better understanding of where their firm is right now.

This helps them continue trading and get an immediate picture of their cash flow, revenues, and costs. With so much uncertainty, immediate, real-time data is vital to help firms manage better.

In the medium- to long-term, such technology helps business owners adapt their firms, to get and sell online, to organise their people differently, and to plan ahead.

As the lockdown is lifted and the economy recovers from Covid-19, small firms will need greater support to adapt to and grow in the new environment.

For instance, while a small retailer's costs may remain the same, social distancing will likely reduce footfall and threaten revenue. Digital tools can help firms understand the impact of such changes and plan accordingly.

We would like to see the government play a greater role in encouraging small businesses to adopt technology. That may be to transform business models, accelerate the path to ecommerce or to make more of digital tools that, for instance, help tackle late payments

We are calling for the government to:

- allow small firms to write off digital technology investments to help them move online or to remote operations
- increase R&D tax credits and review how it is defined so it includes digital tools such as ecommerce and cloud technology
- appoint a minister responsible for increasing digital adoption and cutting the regulatory burden on small firms
- create a public-private partnership with large tech firms and small business policy makers to hasten adoption of digital technology, with a focus on moving online
- expand the remit of the Small Business Commissioner to accelerate small-firms adoption of technology to transform their business models



2. Improving finances and business management

Managing cash flow

Small firms are struggling to manage their cash flow and maintain adequate reserves. In February 2020, going into the coronavirus crisis, less than half of small businesses were cash flow positive. This is based on data from 600,000 UK firms as part of Small Business Insights, Xero's barometer of the small business economy.

Quite often, the cash flow that small firms need is tied up in late-paying customers. When this working capital can make the difference between a firm surviving and recovering or not, this simply isn't good enough.

We are calling for government to:

- set 30 days as standard payment terms for all businesses
- legislate on this issue, and ensure that big businesses pay their small business suppliers on time

Access to and repayment of finance

The ability of small businesses to recover and rebuild depends on their ability to access both short-term working capital and long-term growth-orientated finance.

But while government loan schemes have helped plug the short-term cash flow gap, small firms still lack this long-term growth finance.

The British Business Bank has helped provide distressed short-term credit, but its approach is too short-termist. To help small businesses rebuild, it should move away from short-term loans focused only on liquidity. It should instead look to supply long-term growth-focused capital.

What's more, it is critical that repayment of government loans and other support that has been made available to small firms should be considered over the long term. Small firms should be able to focus on building sustainable long-term businesses rather than repaying debt.

We are calling for government to:

- reset the role of the British Business Bank to focus on providing the long-term growth-focused capital that small businesses need
- ensure CBILS and bounce-back loan repayment terms remain flexible so firms can focus on building sustainable long-term businesses rather than paying down short-term debt
- provide guidance and support to small businesses to help them repay CBILS or bounce-back loans

Simplifying tax

Without getting into the debate about whether taxes should rise or fall to rebuild the economy, there is a compelling case to simplify the tax regime, especially for small businesses.

Stealth taxes should be rolled back, in favour of a straightforward reporting regime for the small business economy.

We also need to make it easier for small firms to employ people, to help address mounting national unemployment. Cash flow issues can make it hard for small businesses to take on new people.

Providing a National Insurance holiday would mitigate some of these cash flow issues, encourage more small businesses to employ people, generate more national wealth and take pressure off public finances.

We know many small firms regard the current VAT threshold as a speed limit. Many worry about the added complexity of becoming VAT registered because they find it confusing. They stay below the threshold to reduce this worry. We should raise the speed limit to stop VAT from being the barrier it is.

We are calling for government to:

- simplify the tax regime for small businesses
- offer a six-month NI holiday to small businesses who take on new employees to ease cash flow issue and promote employment
- increase the VAT threshold to encourage small business growth and foster innovation

Managing their business

Small business owners also need greater help in the support they provide for their people.

Small business owners often worry about retaining and motivating staff. This has never been more important. Many also need help in achieving some kind of work-life balance.

When it comes to employees, the crisis has accelerated the trend for flexible and remote working. It's shown all employers what their employees can do from home.

While many employees will be keen to get back in the office, others will want to continue to work from home, at least some of the time.

Flexible working helps employees manage their work/life balance and ensures firms retain their people.

We are calling for government to:

- help small businesses move to remote and flexible working by extending tax relief to cover all small business employees and reasonable expenses in the next six months

3. Acquiring the essential skills

To survive and recover from this crisis, many small businesses will need to make radical changes to their ways of working and business models.

These changes will require more thorough financial and business planning. For many small firms it will also mean putting digital technology at the heart of what they do.

Becoming more digitally literate

It will be critical for firms to work out how to become more resilient, so they are ready if there is another lockdown, or if their customers' behaviors have changed as a result of this one.

This may mean building ecommerce, mobile, cloud or digital capabilities into their core offer. For many small business owners this will mean acquiring new digital skills, whether by getting the training themselves or by buying in the expertise.

Training, once business owners have found a suitable provider, takes time and money, both of which can be challenging to find.

To help small firms gain these critical skills, we would like to see the government:

- provide tax relief to reskill and upskill business owners in critical digital, financial and business management skills
- improve awareness and access to digital training for financial planning, business management and digital skills to help firms rebuild
- outsource the provision of advice to existing trusted groups to encourage digital take up

Essential financial and business skills

Many small business owners also need help with the fundamentals of financial and business planning. For instance, automating bookkeeping and financial records and understanding and projecting future revenues, costs and profit and loss.

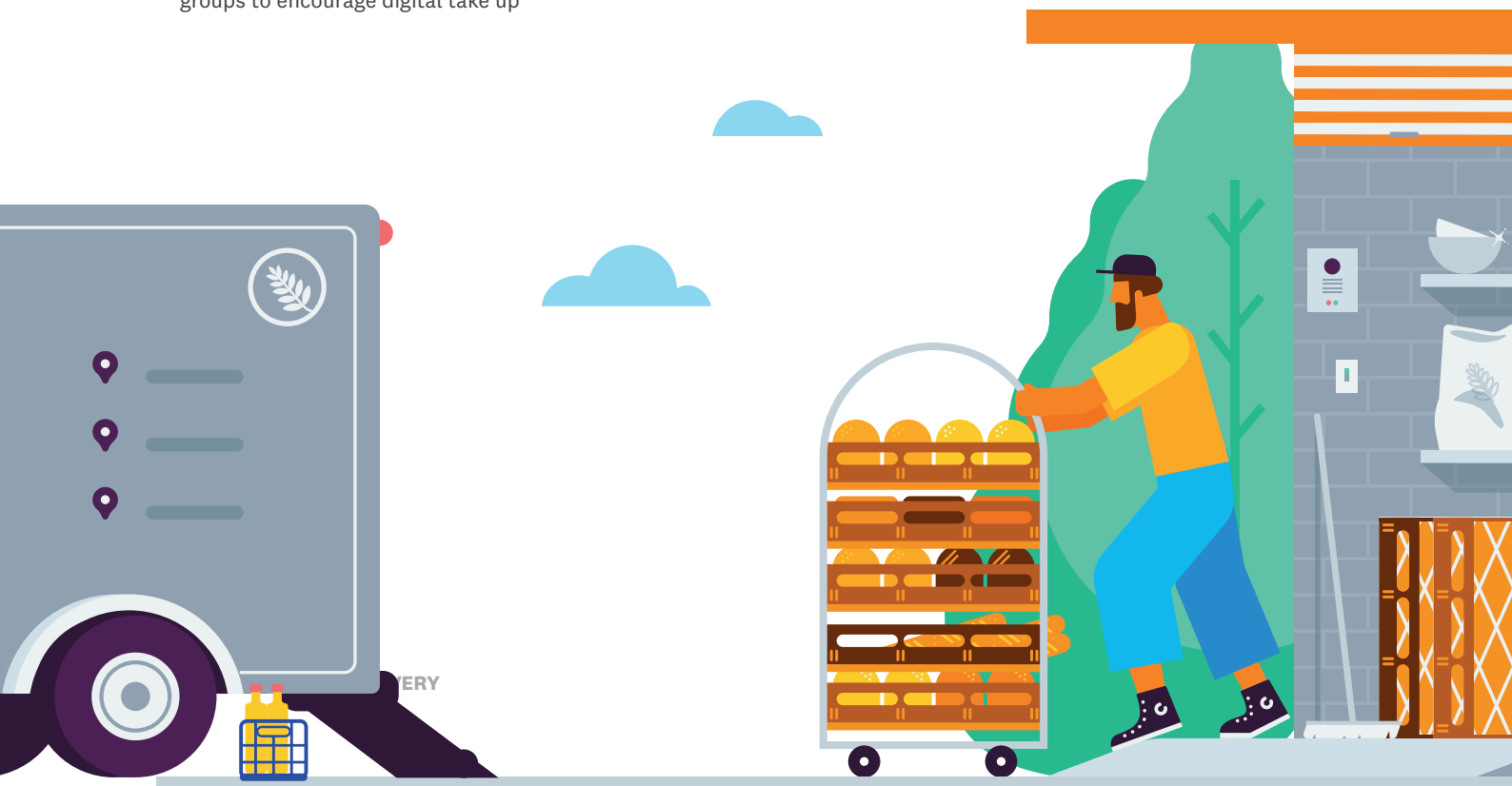
Having these skills will help ensure small businesses are better prepared for the future, they can improve their business's resilience and, ultimately, drive performance.

A good accountant can help with many of these fundamental financial and business skills. For most small businesses, their accountant is the primary and most trusted business advisor. They have deep experience, usually working with similar firms, in the same geographical area.

Yet many small firms do not take advantage of this support network. The government could do more to help and encourage more small firms to tap into that expertise and work with an accountant.

We would like to see the government:

- encourage all small business owners to work with an accountant who can provide broader business advice through a national campaign



4. Strengthening local business communities

Improving the local economy

To help small businesses across the country to recover, we need to help strengthen local business communities. Doing so will also support the government in meeting its levelling up agenda.

This would include encouraging small businesses to take advantage of nearby business management expertise that is available through the right accountant.

In making it easier for firms to operate with remote workforces in the wake of coronavirus, this should also include encouraging firms to recruit from a truly nationwide talent pool.

We would like to see the government:

- improve gigabit digital access for everyone across the country
- put a greater focus on how the UK regions can attract the best graduate talent, keeping the best minds in regional economies
- ensure that the trends towards remote business models, as firms move out of fixed offices, benefits towns and cities nationwide
- encourage small firms to tap into regional expertise through the right local accountant

Supporting local retail and hospitality firms

Many local retail and hospitality businesses face an uncertain future. With social distancing, revenues are likely to be impacted for some time to come. We need to do more to help these businesses find new revenue sources and support them during this period.

What's more, business rates are no longer fit for purpose. This skewed tax is contributing to retail store closures, job losses and stalling the reinvention of high streets across the UK. It requires fundamental reform.

We are calling for government to:

- fundamentally reform business rates as part of simplifying taxes across the board to ensure a fair system for business
- Make it even easier for cafes and pubs to serve food and drinks outside
- allow food and drink stalls in parks during the summer to save pubs and breweries
- ease planning restrictions to make it easier for high street units to switch between shops, retail and residential uses



Conclusion: digital technology at the heart of the small business recovery

Small businesses are more important now than ever.

To address mounting national unemployment and to meet the government's levelling up agenda, we all need small businesses across the UK to recover and rebuild.

That recovery must start now. It must be focused on helping small firms to become more digital at their core.

Adopting digital technology will help small firms to find greater value, scale and resilience against whatever is to come.

They will be able to recover and rebuild quicker and will be better prepared for new threats.

Many small businesses need more support from the government than they are currently getting. More still need a better business environment in which they can thrive.

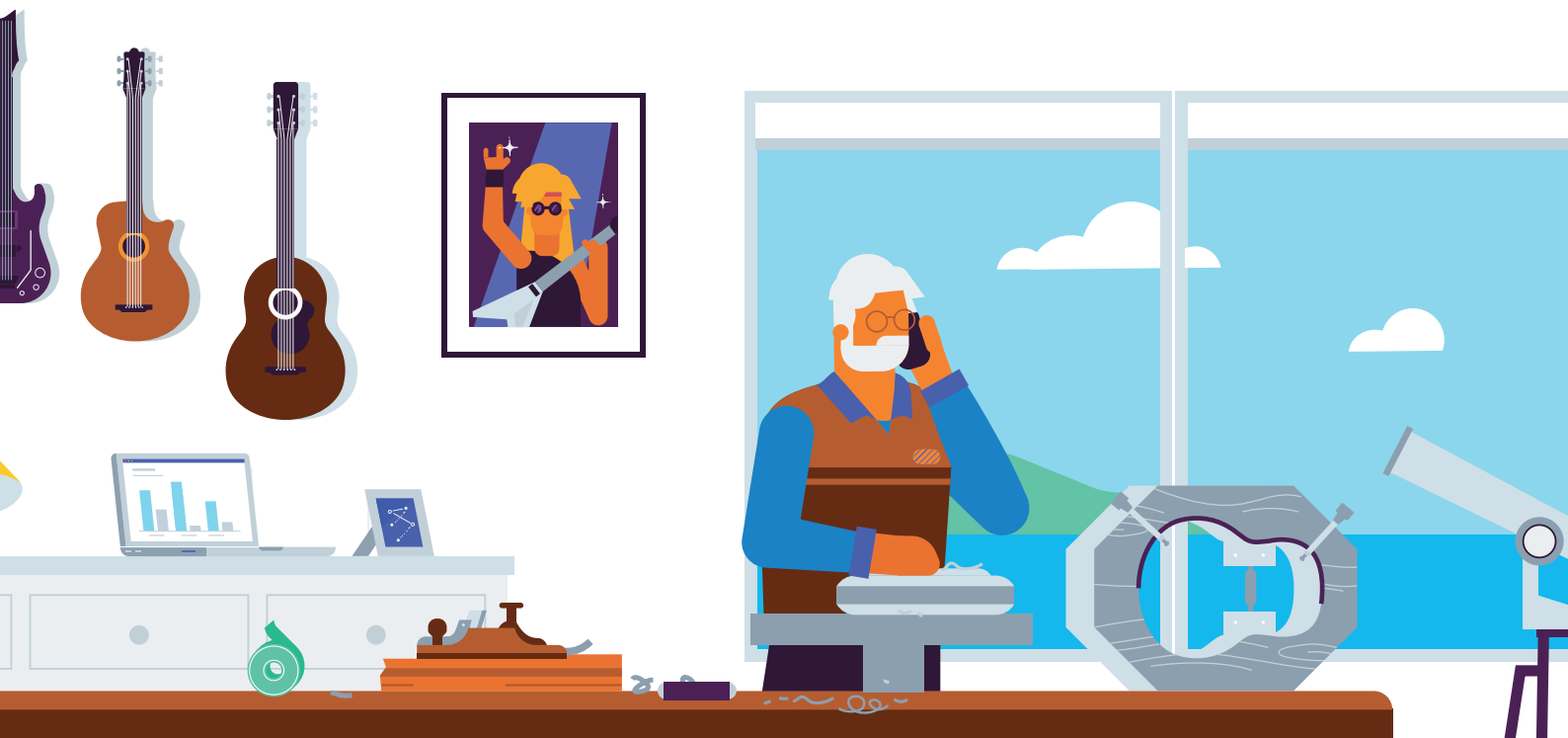
With more than 600,000 small businesses customers across the country, we see the areas where the government needs to help and how to create the right conditions to rebuild.

Making these changes would go a long way to helping small firms to quickly recover and rebuild.

Not only would this benefit small firms but it would provide jobs and a vital economic boost to the whole economy at a vital time. Creating those jobs will take huge pressure off taxpayers' money in the public purse.

That's why we have launched our "Roadmap to recovery for small businesses" and will be campaigning for our customers and the entire small business community in the months ahead.

For more information, visit www.xero.com/behindsmallbusiness





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