



MIDLANDS ENGINE

ENABLING ENTERPRISE SUPPORTING MIDLANDS SMEs TO DRIVE RECOVERY AND GROWTH

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Supporting Midlands SMEs to drive recovery and growth

Since March 2020 and the rapid spread of the pandemic, followed by our first national lockdown, we've monitored the Midlands Engine economy closely. It's been clear that regional enterprise and business has been impacted significantly, regardless of which metrics you choose to analyse.

SMEs in particular have felt the full brunt of the challenges of the year. There are over 810,000 businesses in the Midlands, the vast majority of which are SMEs. Whilst many employ small teams, it's these teams and these firms which have driven our regional growth over time and which, today, are absolutely key to the region's future economic prosperity.

To say it's been a challenging year is an understatement. The global pandemic and

restrictions have forced business owners and employees to swiftly adjust, to rethink and pivot operating models; firms right across the Midlands have rapidly re-organised and been forced to adapt, in some instances, to survive. Nearly a third of workers have been furloughed and remote working has become accepted as a permanent part of life for many.

Adding to this, the deadline for EU exit is fast approaching, with no clarity in sight. Few firms report being well prepared. They are now faced with having to navigate this change of scale whilst simultaneously continuing to contend with the immediate and consuming issues of an exceptionally challenging Covid-19 environment.

Supporting our SMEs has never been more crucial



Sir John Peace, Chairman, Midlands Engine:

"It's very timely to be talking about the impact of Covid-19 on SMEs. At the moment, many SMEs are hurting. Some sectors will never recover. Some will take a long time to recover. And some are thriving.

"SMEs create more job opportunities than big corporates - 60% of UK jobs are in SMEs. But SMEs need confidence, clarity and certainty about the future to help them grow. These things are all in short supply at the moment, due to Covid-19 and the end of the transition period. Supporting economic growth as a region is the best way to support our SMEs."

The Midlands Engine Investment Fund (MEIF)

is a key part of government's vision to boost the region's economy and support the growth of smaller businesses. Supported to date by the European Regional Development Fund, the initiative was launched by the Government-owned British Business Bank. Funding is offered via small business loans, debt finance, equity finance and proof of concept finance. MEIF is helping SMEs across our region to grow and develop.

Sir John Peace: "Our region has a broad base of commercial strengths, including advanced manufacturing, agri-food, logistics, clean energy, health sciences, med-tech and more. Our businesses have to be able to access finance for innovation, finance for growth and the skilled staff they need to accelerate that growth."



A Coventry based GP Service secured MEIF funding, delivered by Maven Capital Partners, to enable them to improve their web functionality and expand their presence among independent pharmacies. Providing online access to general medical consultations and prescriptions via a mobile app, website portal and pharmacy terminals, the organisation will also create around 60 new jobs in the Coventry and Warwickshire region.

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Footfalls and Heartbeats Limited received an equity investment from The Foresight Group via MEIF. The Nottingham-based company has developed a revolutionary and proprietary process for manufacturing smart fabric, which uses nano-scale interactions within the textile to make the fabric itself the sensor. This technology can be used in medical applications such as bandages or within sports apparel and shoes, monitoring the pressure being exerted on a specific body part and transmitting data in real time, wirelessly to a receiver.

The investment funds will be used for continued development of product prototypes with several world leading commercial partners in the fields of healthcare and sports, develop intellectual property and purchase additional production equipment.



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Rachael Greenwood, Director, Midlands Engine:

"MEIF is a valuable route through which regional firms can access the finance they need for growth. Demand has been strong for MEIF, and early review of what's been achieved by companies engaged with MEIF has found firms have been able to increase workforce skills, increase R&D investments and move more products towards commercialisation. "However, we know too that demand is continuing to grow and there is a risk that the Fund will be fully invested early. So we are working with the British Business Bank and Government with the aim of securing expanded support for Midlands businesses - so that the opportunity for greater productivity and overall increases in performance which the Fund has supported, can be available for even more businesses."

EU exit, Covid-19 and opportunities ahead

Sir John Peace: "Leaving the EU has been on the cards for such a long time now, but with long negotiations and a change in UK government, there has been little clarity for businesses over what will happen post-transition. This lack of clarity has generated a lack of confidence for SMEs to invest in their own businesses.

"While there may be fewer opportunities in Europe, more may open up in US and Asian markets. But these may be dependent on 'deal or no deal'. Businesses need to know what will happen - to have confidence there must be clarity and certainty. We have to put in place a narrative and set of processes to help SMEs achieve growth. It's about information, connectivity, skills and access to finance.

"We've seen - through the lens of Covid-19 - that SMEs have to be flexible and agile, allowed to run their businesses fluidly and look at where and how they can grow. In turn, this will allow supply chains to flourish.

"We need to create an environment where SMEs are confident in investing for growth. Midlands Engine will be seeking to engage with even more SMEs, developing a deep understanding of the issues they face and encouraging and motivating them to be more involved regionally. SMEs are the future.

"Looking globally, it's clear that this is where the strong opportunities lie. In India and Taiwan, up to 95% of businesses are SMEs. That's why these countries are characterised by an entrepreneurial, agile spirit.

"South Korea is another good example. It has transformed itself into something of a miracle economy. They recognised the importance of big corporates having a moral and social duty to help SMEs. Everyone benefits - the SMEs often end up being bought out by the corporates. In Korea 85%



of people go to university. Until recently, all of those graduates wanted to work for big corporates but that has changed. Now they would rather start or work for an SME, often working in partnership with the big corporates.

"The message is clear. Big corporates are important, but SMEs can make the huge difference in terms of job opportunities. And what starts as an SME can grow into a corporate. Remember, JCB and Experian are examples of relatively modern companies; household names today - both were once the 'Ms' from the 'SMEs'.

"To achieve similar growth, today's SMEs need support, from Midlands Engine, from the government, from large corporates ... to metaphorically put their arms around them and help them grow."

Rachael Greenwood: "Part of this support will include our role, as Midlands Engine Partnership, in championing our region, and taking regional opportunities for investment - including in infrastructure essential for economic growth - to the global stage. Our work with partners to lead the Midlands UK Forum for Growth - a showcase investment event taking place in November, will do just that - and includes too, a spotlight on the vibrant SME communities of our region."



The rural impact of Covid-19



Professor Stephen Roper is Director at Enterprise Research Centre, Co-Director at National Innovation Centre for Rural Enterprise and Professor of Enterprise at Warwick Business School.

"In terms of supply and demand for rural enterprise, the restrictions on travel and the hospitality industry and its suppliers have been some of the most serious impacts. During lockdown some food producers selling into the hospitality sector faced a sharp fall in demand, such as from restaurants.

"More recently many rural tourism businesses have seen a boost as staycations have become more common. Rural attractions have faced operational challenges while opening and maintaining safety. Estate agents in rural areas have seen a sharp rise in enquiries as working from home becomes the new normal. Higher Covid-19 infection rates have

been in cities so rural areas have come to be seen as safer. Many rural areas do have significant vulnerable populations however, where residents are older.

"In terms of opportunities, the amenity value of rural areas has been highly valued during the pandemic. This creates new opportunities for rural businesses to help people reconnect and enjoy the countryside. We could well see a boost in domestic tourism once the pandemic passes.

"We've seen some great examples of diversification of rural enterprise. Some of the most innovative have been around the agri-food sector with farms using milk vending machines or local deliveries to boost local sales and others starting vegetable and food box deliveries.

"What next? Well, the repercussions of the pandemic seem likely to continue for some years, with financially constrained businesses and households. Encouraging people to buy local produce where possible is one way of supporting each other and keeping local businesses going."

Rachael Greenwood: "In our dialogue with Government throughout the pandemic, we've worked to spotlight the significant and now persisting challenges being faced by our rural areas in particular. The highest risk of furloughed worker redundancies remains in our Visitor economy - in accommodation and food services. With our sub regional rural economies heavily inclined towards the visitor economy, and other vulnerable sectors such as creative industries too, additional support for these sectors is essential - something we have been advocating for and will continue to highlight."

The manufacturing perspective



Charlotte Horobin is Regional Director, Midlands and East of England, Make UK. It's the largest body in the UK representing manufacturers of all shapes and sizes, from big car manufacturers to family owned businesses.

"It's hard to ignore the uncertainties for business this year: the pandemic, the end of the transition period, the US election and a growing terror threat. The pandemic coupled with the unknown terms of the end of the transition period have all combined to knock confidence and damage order books.

"The March lockdown offered the message that if you couldn't work at home you could go to work. But many employees, especially, production staff were worried and didn't feel they should go to work. Make UK worked with the government to get the message across: manufacturing could continue providing workplaces were made Covid-safe.

"Manufacturing is now better prepared for this second lockdown. Previously, many producers had to pivot to supplying different types of products. Many have started to sell direct to the consumer. Many factories in the Midlands are precision-making fundamental pieces to keep, for example, power stations and hospitals running.

"Sectors that Covid-19 has hit particularly hard have been automotive and aerospace. To diversify, aerospace in particular played a key role in the ventilator challenge. A business making ladies underwear pivoted to making hospital gowns which actually turned out to be more sustainable as they could be washed.

"The UK is the ninth largest manufacturing nation in the world. The Midlands accounts for 22% of England's exports and much of that comes from the manufacturing sector. Clearly, without manufacturing you don't bring true wealth into the country.



Charlotte Horobin: "Another issue we've seen has been a lack of trade shows. This has led to much more engagement via commercial platforms and social media. Alongside this has been increased recruitment of digital comms people. In fact, the businesses that have embraced digital tech and skills have been more resilient. There really is a huge business case for investing in tech.

"Midlands manufacturers have shown a highly creative response to the Covid challenge. Manufacturers thought about their businesses and capabilities - and what they could sell to the marketplace to provide value-added success.

Rachael Greenwood: "The Midlands Engine has long been a formidable powerhouse of manufacturing and today it's a sector which is perhaps more diverse and sophisticated than manufacturing anywhere in the UK. Working together with MAKE UK and many partners from across our region's top universities, we've brought forward work through our Midlands Engine Observatory to look rapidly at regional supply chains, what needs to be done to strengthen these and how we can improve resilience regionally.

"We're collaborating here as some of the economic consequences of pandemic quickly revealed themselves - first in disruption and then failures in PPE supply, in other med-tech supplies and systems, in a wide range of advanced manufacturing areas and of course, in our food supply chains. We're committed to working with the Midlands manufacturing sector to help bring forward the support they need as firms rebuild and recover from the far reaching impacts of Covid-19."

"What does the new lockdown mean, particularly for SMEs? Well, most are not stockpiling as Covid has hoovered up a lot of resources. The majority are focusing on keeping running safely and protecting suppliers and employees.

"At the end of the year the three most important things are global, green and digital. Every nation is focused on green and the Midlands has a fantastic role to play. As we build back sustainable opportunities can be expected around the issue. Eight out of 10 MAKE members will be focused on adopting new practices and benefitting from them. In the Midlands, we can make and export goods that can make the world a better and greener place.

"Covid-19 has forced the sector to embrace new technology and this has led to improved competitiveness. It has also given the sector a bit of thinking space about what they sell and how they go to market, and about how they can improve their resilience so they're better prepared for the next challenges.

"This will make our businesses more resilient by forcing them to broaden their supply chains and pivot to new sectors. We're fantastic at this because of the innovation in the Midlands."





Spotlight on enterprise



Professor Mark Hart is Deputy Director of the Enterprise Research Centre (ERC), the UK's leading centre of excellence for research into the growth, innovation and productivity SMEs, based in Warwick Business School, University of Warwick.

"With firms in our hospitality, retail and other sectors now undergoing another enforced closure, many are being denied essential sales at a critical time of year. Although the furlough scheme has been extended, many thousands of firms are now in real jeopardy.

"Depleting cash reserves make for startling statistics. The West Midlands could be facing a potential loss of 26,000 firms and 375,000 jobs, and figures in the East Midlands are likely to be similar. These are depressing figures that could take years to reverse. It is also highly likely that we'll see a downturn in the number of new enterprises started.

"Brexit is also a looming shadow on the horizon. With trading arrangements still unknown, one thing is clear. Now is the time to be supporting the SMEs that form the bedrock of enterprise in communities across the land."

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