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Spotlight

SMALL BUSINESSES: THE REAL ECONOMY

Tracy Brabin MP / Julian Richer / Meg Hillier MP / Martin McTague



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CYBER SECURITY DISRUPTING DIPLOMACY



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Swindling the shopkeepers



When the Prime Minister – then in his former post as Foreign Secretary – was asked last June by a foreign ambassador to respond to the fears of British business leaders at the prospect of a disorderly Brexit, Johnson delivered his most notorious and quintessential line: “Fuck business.”

The quote sums Johnson up because while it appears disorderly and spontaneous, there can be little doubt that delivering such an aphorism in the company of EU diplomats was a calculated piece of theatre. There are millions of voters in towns across the UK who resent the stateless banks, technology companies and other multinationals that have remade the economy without giving them a second thought; Johnson was well aware that it was to these people that he spoke.

However, it is also typical of Boris Johnson that while he speaks to the small businesses and sole traders who have been disadvantaged and left behind by globalisation, it is his audience who will be shafted by his actions. A hard Brexit is now inevitable and a no-deal Brexit is highly likely, and in either situation, as the Confederation of British Industry announced last week (see News, p4), it is Britain's more than five million SMEs that will suffer most.

For the international giants, the footholds they already have in other countries offer a well-stocked lifeboat. But Britain's domestic SMEs lack the cash reserves and facilities for stockpiling, and their supply chains are weaker; some supermarkets have already signalled that they will not sell their stock in bulk to struggling SMEs such as smaller shops or restaurants. If, as many predict, leaving the EU without a deal precipitates a recession, it is likely that banks will repeat the strategy they followed in the wake of the 2008 financial crisis, and small businesses will find themselves unable to secure finance. They will lack the skills provided by freedom of movement and the neighbouring markets on which they rely for growth.

During the Napoleonic Wars, French orators referred to England as a “nation of shopkeepers”; the British were quick to claim the term as an indicator of our commercial expertise. But now it is France in which the high streets flourish, while Britain’s small businesses prepare themselves to weather the coming storm.

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News



GETTY IMAGES / PAUL FAITH

No deal worst for SMEs, warns CBI

Jonny Ball

The Confederation of British Industry, one of the UK's largest business organisations with 140 affiliated trade associations, has said that SMEs will be hit hardest by a no-deal Brexit, in comparison with larger corporations. It is estimated that two thirds of the UK's exporters have not yet applied for the necessary documentation to allow continued trade in the event of no deal. According to an FSB survey, 41 per cent of small businesses believe that a no-deal Brexit will have an impact on their business, but haven't started planning for the possibility.

In its report, *What comes next? The*

business analysis of no deal, the CBI spells out 200 recommendations to help ameliorate the effects of no deal on businesses, including support for SMEs through increased credit facilities, public information campaigns and support for SMEs with the administrative burden of new tariffs and bureaucracy.

Michael Gove, who has been tasked by Boris Johnson with preparing the country for no deal, told business leaders earlier this month that HM Revenue and Customs has been instructed to identify ways in which small businesses can be given relief in the event of no deal.

Company insolvencies hit five-year high

Rohan Banerjee

The number of company insolvencies in England and Wales reached a five-year peak in the second quarter of 2019. The Insolvency Service reported that there were 4,231 insolvencies in the April-June period, a 12 per cent rise from the same point last year, and the largest total since the start of 2014. Of these insolvencies, more than 90 per cent were SMEs.

The sectors most affected by insolvencies were the accommodation and food service industry, retail and repair and construction services. Insolvency experts, such as Stuart Frith, the president of insolvency and restructuring trade body R3, have noted high business rates and increasing employment costs as particular pain points for SMEs. Frith also pointed out that many SMEs may have felt pressure from the uncertainty around Brexit to stockpile certain goods, and in doing so have "exhausted their standard toolkit for coping with reduced demand".

Bill cements SME taxes

Jonny Ball

In July, the government published draft legislation for the next Finance Bill, part of which, the IR35, covers "off-payroll working rules" that will have a direct impact on the taxes paid by sole traders, freelancers and small businesses. The controversial rule changes, which were proposed in the Spring Statement earlier this year, have been criticised by the Federation of Small Businesses, which has called for the government to delay implementation. Ostensibly, IR35 aims to equalise taxes and National

Insurance contributions paid by self-employed and employed workers “working in the same way”. The reform was introduced in the public sector in 2017, but will be extended to the private sector from April 2020.

Critics argue that taxing sole traders as full-time employees ignores the fact that most miss out on full-time employee benefits, such as paid holiday and sick pay entitlements. Small businesses and self-employed workers also worry that the complexity of calculating off-payroll taxes and National Insurance contributions will deter employers from seeking out their services, for fear of submitting incorrect assessments.



SMEs sweat under “aircon tax”

Rohan Banerjee

The Federation of Small Businesses has criticised the decision to include air conditioning units in the Valuation Office Agency’s assessment of companies, which helps to determine how much tax they are liable to pay. The VOA considers heating and ventilation technologies to be assets, and thus affecting the value of a company’s property, which it uses to advise the government’s rate of taxation. As temperatures in the United Kingdom have increased – 2018’s was the hottest

summer on record, according to the Met Office – the FSB chairman Mike Cherry labelled the VOA’s inclusion of air conditioning in its criteria as “absurd” in a statement. He suggested that businesses were being unduly punished for “investing in their businesses and trying to keep workers cool and productive”.

Cherry added that if the Prime Minister, Boris Johnson, was serious about his pledge to save high street shops, then his government should seek to remove the “aircon tax” at the earliest possible opportunity.

UK fintechs in funding boost

Rohan Banerjee

Four UK-based financial technology firms specialising in lending to startups and supporting small to medium-sized enterprises have been awarded a combined £40m from the board of Banking Competition Remedies (BCR), which was set up in the wake of the government’s bailout of the Royal Bank of Scotland. As part of the conditions of its bailout in 2008, RBS had to commit to a £775m investment programme to boost banking competition, which is overseen and allocated, in phases, by the BCR, an independent body.

After receiving 76 applications for the latest round of funding, the BCR selected Atom Bank, Modulr Finance, iwoca and Currencycloud to receive £10m each to grow their operations. Myles Stephenson, CEO of Modulr, an online payments platform, said in a statement: “Modulr was founded with a purpose to make money flow more efficiently through the economy. This award will help us to deliver on our vision and passion to support SMEs to thrive across the UK. This is a great opportunity to bring the benefits of automation and payment processing that will radically change the way SMEs and accountants do business.”



New £10m Brexit fund for business

Jonny Ball

The Secretary of State for Business, Energy and Industrial Strategy, Andrea Leadsom, has announced plans for a £10m fund – equal to around 50p for every registered UK business – to support businesses’ preparations for a potential no-deal Brexit. The scheme forms part of the planned £108m announced by the government to pay for a Brexit readiness campaign and is aimed at groups such as the British Chambers of Commerce, the Institute of Directors, the Federation of Small Businesses (FSB), regional chambers of commerce, chartered institutes, trade associations and professional membership bodies.

These organisations will be invited to apply for funding to deliver “advice packs; information campaigns; webinars; podcasts; events or training workshops”, which have to be delivered in their entirety by the 31st October, after which, according to the Prime Minister, the UK will leave the European Union with or without a deal. The plans were welcomed by the Director of External Affairs at the FSB, who said that it was “critical to the economy that they have the information they need to prepare for Brexit.”

Britain's biggest small businessman

Julian Richer has turned a set of small-business principles into a recipe for success and stability in a turbulent market. He told Will Dunn why responsible capitalism works for everyone

When he was still a teenager, Julian Richer began selling hi-fi equipment from a small shop in London Bridge. By his mid-30s, Richer had turned that shop into the retail outlet with the highest level of sales per square foot anywhere in the world, taking almost £200,000 for every square of floor space. The business has since grown to more than 50 stores, with a turnover approaching £200 million a year, but Richer jokes that he remains, at five foot seven, very much “a small retailer”.

We meet in what Richer calls, with another grin, his “global headquarters” – a booth in a restaurant in Mayfair where he conducts most of his meetings. He continues to run Richer Sounds on the principles of a small business, attending the London headquarters just two days a month and visiting every store – “I don’t just pop in for a Royal visit. I do a whole team briefing on the store’s performance, I answer questions.” In more than 40 years in business, he has never really left the shop floor.

Richer’s gift is the ability to turn principles that other companies might see as old-fashioned or sentimental – prudence, the restraint of ambition, a profound respect for people and a commitment to fairness – into a business that can compete with the most ruthless retailers on the high street, and even the internet. While other chains splurged on leases in prime locations, Richer gradually built a chain of what he calls

“very efficient sites” – small shops in secondary locations, on which the company owns the freeholds, “so we’re not controlled by rapacious landlords”.

More could have been done, he argues, to protect the small businesses of the British high street against such interests. “In France, they controlled the growth of superstores. It’s very difficult to get planning there – and they have thriving high streets. We just took the money off the big developers.”

But while some of the high street’s big chains “have a cost advantage, because they rip off their staff”, Richer has maintained for decades that treating employees well is the secret to Richer Sounds’ success. The company pays the Living Wage, refuses to use zero-hours contracts (which are widespread in the retail sector), and offers staff use of company-owned holiday homes. Its gender pay gap is slightly in favour of women and a “Helping Hand Fund” is available for staff who need financial help. The extra cost, Richer maintains, is more than repaid in the quality of service that leads to sales and customer loyalty. In a sector that suffers from high churn, low motivation and lack of experience, Richer Sounds employees know their products and stay for years longer than the average. The company’s chairman, David Robinson, started behind the till at the Stockport shop aged 16.

The company’s accounts record not



JULIAN RICHER

“I get on well with John McDonnell”

only turnover and profit, but how long Richer Sounds takes to pay its suppliers and contractors. How a company is perceived is more than just marketing, Richer says. “There’s a very well-known fashion chain at the moment that’s got terrible, terrible problems – they’re asking favours from their landlords, and they’re not rushing forward to help, as I understand it. If you treat your staff badly, and you rip off your customers, and you don’t pay your suppliers on time, everyone’s going to think – you’re not going to get any favours out of me, mate. Life depends on good will.”

In the mid-1990s, Richer’s small-business principles were tested on 70,000 employees – “colleagues”, as I wanted to call them – as the new chairman of Asda, Archie Norman, attempted to rescue the supermarket giant from the brink of bankruptcy. Richer became a key consultant in what has been described as one of the most significant turnarounds in British retail history; Asda was eventually sold for £6.7bn to the American chain Wal-Mart. Norman has said that the self-esteem of colleagues and the belief they have in the value of their work are fundamental to revitalising a business. As the chairman of M&S, Norman has again asked Richer to advise on creating a happier, more motivated staff. Steve Rowe, the CEO of M&S, visits Richer at his restaurant table.

But Richer’s dedication to his staff is not based solely on the fact that it is effective capitalism. In fact, despite that fact that he has shown himself to be adept at it, he sees capitalism itself as “ghastly”. “It’s based on greed – not one of our most attractive characteristics,” he explains. And accepting the nature of the

system means accepting the responsibility to improve it. “Anyone that works for me – technically, I’m exploiting them. I’m buying their labour to help me make money. The onus is on me, therefore, to treat them well, so they’re motivated, and don’t mind doing the job.”

Richer is not the only business leader to practice, as he calls it “responsible capitalism” in the UK. The shoe repair chain Timpson proactively employs ex-offenders and other marginalised groups and allows its more than 5,000 staff almost complete autonomy, including the freedom to set prices, while others including Riverford and Brompton have also found that the welfare of their staff is directly connected to the success of their business.

However, Richer is concerned that the current system of capitalism remains tilted in favour of larger businesses. One area in which this is a particular problem is taxation; repeated studies have shown that the UK’s small businesses effectively pay a higher rate of corporation tax than big businesses after tax relief has been used. As a smaller UK retailer, Richer Sounds was audited by HMRC in a “murderous” three-year investigation. “It cost a lot of money. It went back through millions of transactions over seven years.” But, he explains, if he had been less scrupulous and based the company offshore – as many large retailers do – “they wouldn’t have been able to do any of that.”

After reading *The Great Tax Robbery* by the journalist Richard Brooks, Richer contacted Brooks’ agent and offered to pay for an investigative think tank, Taxwatch, which was launched last year to bring corporate tax evasion to wider attention. But HMRC, Richer says, is bound by a lack of resources to “go after what’s in front of them”. Worse still, he argues, the government employs the same consultants that advise big business – and so, inevitably, “they go back and sell the loopholes to their clients. If I was employing a consultant, and I then found out that they’d advise my enemies, they’d never work for me again.”

Richer describes himself as politically independent. He previously donated to the Conservative Party in order to join the party’s “Leaders’ Group”, in which he met with Theresa May, Iain Duncan Smith and David Cameron, but found that he was “not comfortable there... what I saw was an awful lot of hustling by interested parties. And a lot of the conversation from the ministers was about, no we’re not going to spend time on that, we won’t get any votes for that, instead of caring what’s right for society.”

More recently he has been meeting with John McDonnell. “A lot of people are very scared of him, in the business world particularly. I get on well with him. He’s pragmatic, he’s respectful to capitalists. When he came up to York to give a talk, I said ‘do you want to stay in my beautiful home, before you confiscate it?’”

In May of this year, Richer pre-empted one McDonnell policy – the plan to use “inclusive ownership funds” to give employees a stake in the businesses they work for – by transferring the majority of his shares into an employee-owned trust. At the same time, every employee below director level received £1,000 for each year of service. The average payout was £8,000, reflecting just how good Richer Sounds is at retaining its staff.

Richer plans to spend more of his time working to popularise responsible capitalism in the wider economy. He supports the idea of a Good Business Charter, especially if the standard means that public sector contracts go only to companies that have been audited for their employment and tax practices. And while Labour has a manifesto commitment to ban zero-hours contracts, Richer is launching a court case that may see them outlawed under the European Convention on Human Rights – to which Britain will remain a signatory after leaving the EU – on the grounds that they prevent people accessing housing in the UK. “If I could leave that legacy, of changing those,” he says, “I’ll have done something really useful. Apart from selling stereos.”

Small businesses and Brexit

Martin McTague, policy and advocacy chair at the Federation of Small Businesses, spoke to *Spotlight* about the impact leaving the EU will have on SMEs, and what government can do to help



How will a no-deal Brexit affect small businesses?

It's going to have far-reaching effects on a lot of small businesses. Some think they won't be affected but they will be. When they import they're affected by currency changes or changes in the arrangements for getting products into the UK. The government's own estimates say that we have almost 250,000 exporters. They will be directly affected because most of them deal exclusively with the EU. Queues at the border, tariff barriers, and inflation – all of these things will have a huge impact.

The other worry is the impact Brexit will have on skills. A future immigration system which didn't allow employers access to the workers and skills they need would be a serious problem for a lot of businesses. Big sectors that employ EU migrants – care, retail, hospitality – would actually struggle to function. Not everyone is a fruit picker or a brain surgeon. There are a lot of people in the middle – technicians, care workers – who can by no means be described as unskilled, but still can't meet the kind of £36,000 income threshold the government is proposing. Small businesses need these people.

How have small businesses been preparing for a no-deal Brexit up to now?

Generally, they haven't been at all. Last year, we conducted a survey that said that only one in seven small businesses had started planning for no-deal, even though 41 per cent thought they'd be affected by it. People don't know how

to prepare. They don't know if the government is going to pull a deal out of the hat, or whether there will be arrangements in place that at least to an extent mitigate some of the potential impacts of a no-deal Brexit, or whether the whole thing will be overturned in another referendum. There's no clarity.

Our latest confidence survey showed that business confidence was at a two-year low. Small businesses don't sit on big cash reserves like large corporations. Businesses want, and need, to plough resources into new equipment, staff, training, premises, not spend on something that's potentially unproductive and potentially not going to happen.

Big multinationals can move production outside the UK, stockpile products, hire extra staff for paperwork. Not many small businesses have that same luxury.

What could the government do to help small businesses prepare?

There's clearly going to be a shock to the economy if the UK leaves in less than two months without a deal. We're asking for a budget, as soon as possible, but ideally before we leave on October 31st, so that we can prepare for what's to come rather than try and pick up the pieces after the fact. Small businesses need time and cash. They may need their overdrafts to be extended to see them through the shock.

The government will need to make sure banks are prepared for those demands and help them with those demands. The government could extend the time struggling businesses have to pay VAT bills, employers' national insurance, tax bills. It could reduce VAT to stimulate the economy; it could reduce interest rates.

We're not saying any of this is ideal. We would prefer a deal. That's in everybody's interests. With a deal you get the transition period to prepare and adjust. Small businesses are going to find it very difficult to adjust to this new world in the next 60-70 days, especially without adequate support.

How innovation can empower small businesses

Gary Turner, co-founder and managing director of Xero, discusses how the effective analysis of financial data can stimulate SME growth



What are SMEs worth to the UK economy?

Small to medium-sized enterprises – private companies with fewer than 250 employees – are the backbone of the United Kingdom's economy. There are close to six million SMEs in the UK today, spanning a range of sectors, and while the big brands and corporations might grab headlines, they are the ones that keep the country ticking over.

According to the Federation of Small Businesses (FSB), SMEs made up 60 per cent of all private sector employment in the UK in 2018. Indeed, the scope and importance of these businesses should not be underestimated; and it seems reasonable to suggest that protecting them represents a rare area of cross party consensus for policymakers going forward. If the UK's decision to leave the European Union necessitates a sharper focus to be turned onto domestic issues – such as business rates and the

regulatory framework – then making it easier for SMEs to start, grow and access support must be treated as a priority post-Brexit. Small businesses are a major source of employment in the UK, and by extension a source of productivity.

What role can technology play in growing SMEs?

The evolution of technology has already played a significant role in enabling small businesses. The physical IT infrastructure of the past is diminishing. Fewer companies are using filing cabinets, instead opting for cloud-based software and mobile devices. As the world moves into the Fourth Industrial Revolution, where consumers crave convenience and speed in the delivery of products and services, the UK's SME sector has a responsibility to keep pace.

The UK is a great place to start a business – numerous government tax break and relief schemes have seen to

IN ASSOCIATION WITH





that in recent years – but growing one here is more difficult. The challenge in doing so is rooted in cash flow, access to real-time insights and closing a business-based skills gaps. Xero, a cloud accounting platform which digitises various operational aspects of SMEs such as bank feeds, payroll, taxation and invoicing, aims to clear these hurdles. It wants to help SMEs to reach their potential, enhancing their products and services while exploring new markets that didn't exist before.

So, how does it work? Xero connects businesses with the accounting tools, apps and the thousands of data points they need in one place, available at any time or on any device. The platform collects and collates information that businesses need – feeding into a centralised accounting engine which does not require human intervention. The lack of human intervention – keeping the data untouched – ensures

that it retains its credibility. It is secure, trustworthy and accurate. The platform supports bank feeds and a company's client base, while also using speedy digital entry of data to course payments and invoices.

What are the main challenges that SMEs need to overcome?

The motivation behind this sort of digitisation is more nuanced than simply slashing overhead costs. The transition from paper-based to paperless offices does save on space, but more importantly the streamlining of business operations leads to more up-to-date insights into performance and productivity. This has a net positive impact on both the business owner, who can make more informed decisions more quickly, and its consumers, who experience the benefits of a better product or service as a result.

As a cloud-based online solution, which also has a mobile app version, Xero delivers anytime access, anywhere, to an SME's financial data. It also supplies a multi-layered approach to ensuring data retains its integrity when loaded into its accounting software, and helps ensure it remains air-tight and cyber-secure, all the while ensuring that the business owner needn't be anchored to his or her desk. Moreover, on an ongoing basis, built-in controls and tools help alert users and their advisers if and when data has been changed.

Late payments, our research has confirmed, are the scourge of SMEs. Digitising the payment process, Xero's Small Business Insights platform shows, is key to improving company efficiency and productivity. Currently, our statistics show that UK SMEs are owed, on average, £24,841 every day as a result of late payments. This is, in part, down to an embedded culture of late payments in the UK which needs to be challenged in itself. We would advise, generally speaking, to negotiate shorter payment terms as with a longer payment window, as there's a greater chance that an invoice could potentially be lost or ignored in these situations.

Our research into late payments revealed that small business owners are spending an average of ten per cent of their day – which equates to two days per month – chasing late payments, with invoices an average of 14 days overdue before being settled. Asking for money can be awkward at the best of times, but it's crucial that SMEs are more assertive when chasing invoices, because cash flow is ultimately not a concept they can afford to be flexible with. But beyond that shift in attitude, our technology again has a contribution to make. It can even automate the process of chasing an invoice, so SMEs can track their cash flow, stage by stage, in real time.

What are the roles of business, industry and government going forward?

Too often the idea of automation is clouded by misguided notions of replacement, rather than redistribution. The cost-cutting caused by technology should be viewed as a happy side effect rather than the driving force behind it. The idea underpinning such platforms is to help SMEs to thrive, sustainably. Where processes can be digitised, employees can be redeployed into other areas of the business where they might be better utilised.

Ultimately, for the UK to succeed as an economy post-Brexit, its entrepreneurial ecosystem must maintain and improve its already high standards. The support for startups must be mirrored by government investment into help and advisory tools for SMEs, encouraging them to pursue loftier ambitions. That investment into skills and training should come against the backdrop of a more tech-savvy business sector. Technology is an enabler of progress and platforms such as ours are primed to steady cash flow and empower companies through their insights. The future of the UK economy, with no trace of embellishment, hinges on its capacity to support its SMEs.

For more information, please visit:
www.xero.com

Sole traders and the self-employed should be entitled to timely and fair pay and adequate parental leave, writes Tracy Brabin, Shadow Minister for Early Years

Give gig economy workers the rights they deserve



There is a peculiar feeling around the gig economy insomuch as it feels like a new thing. There is the idea that prominent gig-economy employers, brands that are part of our daily lives – Uber and Deliveroo, for example – are a somehow small phenomenon, borne out of a nascent technological revolution. But this couldn't be further from the truth.

In July, the Trades Union Congress (TUC) advised there are some 4.7 million people working in the gig economy, accounting for around one in ten workers – a sizable proportion of the national workforce. But many of the things we associate with the gig economy aren't new. Insecure work has always been part of our economy.

Before entering parliament in 2016, I worked in the creative industries as an actor. In many a bar, after yet another short-term job, we'd gather and moan that we were the original gig economy – the cockroaches of the employment market. We said that even after

Armageddon, actors would still be out there hustling to get another gig, doing anything to keep the wolf from the door. From hawking plays around villages on the back of a truck in rural England, to being booked for a day on a commercial followed by weeks and weeks of nothing, actors are the masters of just getting by.

Of course, this isn't unique to actors and applies to others in the creative industries as well. It can also apply to the chiropodist, the hairdresser and the engineer. In 35 years as a freelancer, with a feast and famine cash flow, childcare complications and lack of security, my desire to campaign for freelancers and gig economy workers has increased.

I was elected in an October by-election, and remember remarking to colleagues in late December my amazement that I was going to be paid over the Christmas period. Unless you're in panto, Christmas can be bleak for actors and we'd often end up putting Christmas costs on a credit card. This year I was being paid to be with





The acting industry is notorious for late payments and insecure work

my family. My reaction was met with blank faces in parliament but as I caught up with friends over the festive period, they got it. They understood how it is for the self-employed; if you don't work, you don't earn.

But, as with everything, there are two sides to the argument. Some believe the gig economy is freeing, allowing people to work and earn when they want. Others say the power is in employers' hands, making financial management almost impossible, putting freelancers at the bottom of the food chain when it comes to being paid in a timely fashion.

There's nothing more demoralising than billing for work you've done in good faith, only to hear nothing for weeks or perhaps ever. And the facts back this up. Earlier this year it was estimated that freelancers in the UK each lose on average £5,400 a year through unpaid work and spend 20 days chasing invoices. This is an economic epidemic.

The campaign group Freelance Club is

asking for a culture change from one where freelancers aren't considered "real workers", to one where they're treated with the same respect and dignity as any other staff member. Of course, we must go further. Legislation exists to name and shame companies that don't pay the minimum wage. If companies fail to pay invoices on time, shouldn't they face similar penalties rather than workers suffering the consequences?

And it's not just about payments. It's also about rights. Shifting the status of a worker to an employee has been pivotal and the TUC and other unions such as the GMB have been at the forefront, taking on the likes of Uber, Deliveroo and Amazon, campaigning hard to ensure workers are treated as employees, entitled to basic rights such as the minimum wage, sick pay and holiday pay.

But where the courts lead, the House of Commons must follow, and I believe that at the centre of any new legislation must be shared parental leave and pay. In recent

years we've witnessed the welcome introduction of shared parental leave and pay for families in conventional employment. A positive step that allows parents to take leave in a way that works for them without assumptions that it will always be the mother who cares for the children. But with the world of work changing rapidly, we must also extend that to freelancers and the self-employed.

I tried to tackle this through my Ten Minute Rule Bill, "#SelfieLeave," which called for shared parental leave to be extended to the self-employed. It suggested that freelance families could share parental leave at no cost to the taxpayer by allowing maternity pay – which is already paid – to be shared. This would ensure that both partners have the opportunity to bond with their child, and would mean that mothers could choose to keep their business going if they wished, rather than having to stay at home for 39 weeks, potentially losing contracts. This tweak could change the lives of the 44,000 parents currently eligible, help close the gender pay gap, assist parents to share childcare and help businesses to retain staff.

Whilst #SelfieLeave received warm words from Labour, Lib Dem, Conservative backbenchers and ministers alike, those words dry up at the mention of legislation. We know workers' rights are rarely handed down and must be fought for, which is why I was happy to co-sponsor Conservative MP Helen Whately's Flexible Working Bill. It called for flexible working to be the default position for all employees rather than being up to individuals to request. With no sign of the gig economy shrinking any time soon, it's more important than ever for legislators to be ahead of the curve.

It's also vital we keep the pressure on the government to implement Matthew Taylor's recommendations around the rights of workers in the gig economy. Because the Conservatives have had nine years to help the self-employed and if they're not up to it, then it's time they moved aside for a Labour government that will.

Big opportunities for small businesses

Technology is levelling the playing field for startups, writes **Rob Orr**, executive director at Virgin Media Business

What if you found yourself unable to speak? No longer able to share your thoughts and feelings, needs and frustrations. As a speech and language therapist, Rebecca Bright often worked with people in that situation day in, day out. People with conditions such as cerebral palsy, motor neurone disease and stroke, who needed extra help to communicate.

But the tech tools on offer to them were far from ideal. They were clunky, chunky and just not portable. They were the opposite of user-friendly. She knew she had to do something.

Ten years later Rebecca is running Therapy Box: a business that develops multiple apps for people with speech challenges. Those apps are available in ten languages and have won Therapy Box a trophy cabinet's worth of awards,

Rebecca Bright's Therapy Box develops assistive apps for people experiencing challenges with their speech



including the Queen's Award for Enterprise Innovation (twice), and the Virgin Media Business VOOM – a competition where entrepreneurs pitch their ideas to Richard Branson. In 2016, Rebecca was awarded an MBE.

Ask her what she's most proud of, however, and it isn't all the gongs and plaudits. It's the emails she gets from people she's helped. The apps have been "life-changing", they tell her.

Making that kind of difference to someone's quality of life shouldn't be taken lightly. It comes with the responsibility of not letting customers down. For that you need technology you can rely on.

That might not sound particularly exciting. But for Rebecca and millions of other small to medium-sized businesses, speed and reliability are critical. If things stop working it really

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does matter.

So how do you go from practising therapist to celebrated, successful business owner, making a real difference to the lives of people all over the world? By going online, of course.

If you want to be there for your customers, you have to be online, open for business and available whenever they need you. You can't afford to take chances with an IT system that might fall over, freeze or fail. Because if things go wrong your troubles can come thick and fast.

The right IT backbone can help a business be nimble, agile, and responsive. It will let you transfer huge amounts of data in the blink of an eye, keep costs low by using the internet for voice calls and keep files stored safely and securely in the cloud.

The growing businesses of tomorrow



Approved Food founders Andy Needham (left) and Dan Cluderay

will be increasingly reliant on such advances. That's one reason Virgin Media Business is investing £3bn in a super-fast, super-charged and super-robust optical fibre network – the UK's largest, reaching out to more than 17 million homes and businesses.

Being able to re-purpose, re-prioritise and refresh the way you use your network means you can add users, launch a new website, offer a specific contact phone number for a marketing campaign and more, knowing you can switch it all off again and go back to normal if and when you need to. That's what gives some businesses the advantage when chasing after a new idea and bringing it to life.

Another business that knows all about making the most of an opportunity is Approved Food, which started life as a market stall in Sheffield run by Dan Cluderay. Dan wanted to go from selling 50 items on his stall to offering thousands of items online.

Along with his business partner Andy Needham that's exactly what he's done. Approved Food offers heavy discounts on a range of more than 6,000 groceries and household items, some of which have gone beyond their best before date. Not to be confused with the use before date, they are quick to point out.

It's a niche that has delivered commercial success and publicity in

spades, including appearances on the BBC's *Dragons' Den* and ITV's *Bargain Fever Britain* among others.

And despite their modesty – "over the past ten years we have made every mistake in the book," they say – Dan and Andy's business is booming. They're always open: 24 hours a day, seven days a week. Queries are answered at any time, from any location. There are plenty of challenges, of course: accessing stock, the marketing know-how to make people aware of their website, the ability to process orders efficiently.

But perhaps the biggest challenge is meeting customers' expectations. Customers whose opinion of service is now viewed through an Amazon-shaped filter and who want to know why you can't operate like their favourite apps and retailers. They're not interested in listening to excuses.

The harsh reality is that if you can't move at that kind of speed, your customers could well decide to shop elsewhere with a company that can. And many businesses unable to keep up have found themselves left for dead. Like Therapy Box, Approved Food has partnered with Virgin Media Business and is also a VOOM winner. It says the speed, connectivity and reliability it gets from Virgin Media Business simply means one less thing to worry about while it pushes into new areas.

A fast, reliable network is now within the grasp of almost everyone. You don't need to be the biggest or most powerful to offer the best levels of service and innovation. And you don't need to have the deepest pockets to be able to unleash your digital potential.

Business owners will always be faced with challenges. But if you're looking to grow and evolve your organisation with ultra-fast connections, empower your staff with secure mobile access to corporate data and applications and make the most of opportunities that might come your way, don't compromise on your ambitions with unreliable technology.

David and Goliath lessons for SMEs

QHi Group founder and CEO **Ross Kennedy** has built three SME market-leading niche businesses during his career. Here, he offers insight from his experiences



During the 1980s, I built EuroStudio – the United Kingdom's largest importer of wallpaper and stencils. I then built QHi Group with a rail business which specialised in providing patented rail lubricators and lubricants to the UK where it again became market leader, and also to several export markets. We divested the rail division in 2012 to focus on the EXERTHERM systems opportunity.

During the early 2000s, QHi Group became the UK-based distributor for a market-leading infrared products manufacturer based in the United States, Exergen Corp led by Dr Francesco Pompei. This included handheld infrared devices for detecting electrical faults. At this time, the global de facto solution for detecting the most common cause of electrical outages (which is bad joints/terminations) was annual inspections using expensive thermal imaging cameras. The experience gained

from selling the small inexpensive infrared device ignited the idea of producing an infrared sensor which could be placed inside electrical panels.

Lesson One: Gaps in the Market

QHi worked closely with Exergen Corp to develop a patent-protected sensor which could be placed inside electrical panels to constantly monitor and detect thermal abnormalities in advance of failure. In doing so it was realised the global potential market for such innovation was huge – (every large-scale industry in the world uses electricity) – and therefore worth the precious use of the resources of an SME. Listen to the market, they'll tell you where the gaps are.

Lesson Two: Finding a Niche

Financial resource is a precious commodity and thus it must be used judiciously. Failure to observe this golden rule can, and often does,

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Pictured: the EXERTHERM Infrared Sensor



lead to failure of an entire business. Before embarking on the development of a new product, ensure the available market is of a sufficient size and scope to suit the level of investment being made, and the realistic return on that investment. It is important to identify a niche area; these are easier to start and protect because they are often under the radar of the big organisations. You will be under less margin pressure too.

In developing the specifically designed infrared sensor, it was also important to research existing technology, to determine if anything similar already existed as “prior art”.

Lesson Three: Protection

History is littered with stories of SMEs who came up with great ideas or inventions that were then copied by much larger organisations, because they failed to adequately protect the invention. It is very important that you protect your innovative technology in

the key markets in which you want to sell. It is expensive, but vital to protect you from larger predators.

Having developed the infrared sensor, QHi also then developed a further new patent-protected sensor for cable terminations, together with a device which would enable alarms to be notified and data transferred to software systems. We had a product – brand name EXERTHERM. Once again we spent money on registering and trade-marking the name in the markets we saw as key for the future.

We were now ready to go to market. Our product would be embedded in electrical infrastructure and was suitable for inclusion in new build equipment and also retro-fitting to existing equipment. It could also be fitted to any manufacturer’s equipment. We thought we had a winner.

At a meeting of the main global equipment manufacturers, it was arranged for us to present our new technology to them. Everyone around the table indicated they were very impressed, and that our new technology represented the future, and that it would replace the existing flawed thermal imaging technology solution. We left the meeting on a high, believing that the implementation of our EXERTHERM system would soon commence and we would see the return on our investment.

Lesson Four: Timing

Timing is one of the key ingredients essential for success. What transpired was that we were too far ahead of the market. The market concept was that thermal monitoring was a luxury. In addition, the manufacturers were in a competitive market and were afraid that by adding the cost of our system, they would lose projects to competitors who did not, and were thus cheaper. It was going to be a long-haul task.

We realised that there was going to be no quick win where EXERTHERM would be adopted globally within a short time frame. There was a further difficulty; we were also very disruptive, both to the equipment manufacturers,

because we disrupted existing production lines, and also to the thousands of contracting businesses who offered thermal imaging inspections to end-user customers.

Lesson Five: Focus

With limited financial resources and launching a technology which is viewed as disruptive by the existing market, it is essential to focus on specific targets. Think of this as a rifle shoot approach rather than scattergun. QHi chose just two main industries to initially focus on that met the criteria of high downtime costs, plus high growth and profits, and with limited decision-making centres and a limited number of main players. We chose the data centre and oil and gas industry.

Our mission was to convince sufficient numbers of the large-scale end-user customers of the electrical equipment manufacturers to specify our technology, such that we would “create” a market for it. I will not pretend it was easy, quick, or inexpensive. It was difficult, slow, and expensive, but we did it. EXERTHERM is now adopted by all the major electrical equipment manufacturers and has been successfully deployed worldwide in numerous projects with blue chip organisations, and across numerous industries. We listened to customers and are constantly developing new applications and enhancements to the EXERTHERM portfolio of monitoring systems.

Lesson Six: Belief and Luck

When I started the rail division of QHi Group, our largest competitor asked me how I hoped to succeed against them. “You’ve got no chance,” he told me. We believed and we won. If you believe in your business, surround yourself with great people who share that belief; it’s amazing what you can achieve. Finally, while you should never rely on it, luck will inevitably play a part in the success or failure of any organisation, no matter its size.

For more information, please visit:
www.qhigroup.com

Britain's huge appetite for sandwiches employs an SME workforce larger than all but the biggest private sector employers, but the industry is changing fast. Rohan Banerjee finds out more

Why we need to talk about lunch

The sandwich industry in the United Kingdom is worth an estimated £8bn a year and employs around 325,000 people – close to double the number of active personnel in the British Armed Forces, and approximately 5,000 more people than Tesco, the country's largest employer in the private sector.

According to the British Sandwich Association, the industry's trade body, around 60 per cent of the UK sandwich industry is made up of micro-businesses and small to medium-sized enterprises (SMEs), namely specialist sandwich bars, bakeries or cafés; with the remainder accounted for by the ready-made, pre-packed products sold in many convenience store chains, public-sector

organisations and supermarkets. "In reality, the definition of a sandwich shop is so broad these days," says the BSA's director Jim Winship, "that the £8bn estimate actually feels a bit conservative. So many different places stock and sell sandwiches in some form or another... you've got paninis and toasties sold in coffee shops. Lots of retailers might be inclined to explore the sandwich market."

According to Kantar's 2017-18 assessment of the £20bn-valued "food-to-go" market, which it defines as any ready-to-eat snack from a purpose-built retailer, sandwiches are the most popular product that meets these criteria, with a 57 per cent share of the market. Salads, in second place, represented just ten per

cent of the UK's food-to-go market in the same year.

While sandwiches are now a global food with multiple cultures offering their own takes on the bready snack – from the United States' cheese steak to Mexico's cemita or Greece's gyro – their origin is widely credited to one particular historical figure. In 1762, John Montagu, the fourth Earl of Sandwich, in Kent, was supposedly too busy to stop for dinner and asked for some cold beef to be brought to him between two slices of bread. The source of sandwiches' popularity, the food journalist and author Bee Wilson notes in her 2010 book, *Sandwich: a global history*, is their simplicity. "Portable, quick, satisfying, cheap and requiring neither a plate nor





An £8bn industry is at stake

cutlery, the sandwich is the most universal of all fast food,” she writes. The average price of a sandwich in the UK, according to the BSA, is £2.40.

Given the scope and scale of the industry, is there a risk of taking it for granted? The £8bn figure, Winship points out, does not only represent how much the sandwich industry has grown, but equally how much it stands to lose if it is not “managed effectively”. He warns: “We can’t afford to become complacent. I think the government is doing very little to help small businesses generally. Business rates are high and rents are high, especially in cities, to the point that they can be quite crippling for small businesses.”

For Richard Smith, managing director

of Love Bites Ltd, a mass producer of pre-packaged sandwiches based in Bradford, West Yorkshire, “a lot of [government] legislation” represents an “unnecessary barrier” to his business. Supplying a range of clients, including corner shops and on-board train food carts, has been made more difficult, Smith suggests, by a regulatory industry that has “created a lucrative racket, employing many people who appear to spend their time coming up with these new rules, which we at the sharp end of the food business, actually find quite ridiculous.”

Although he “obviously” recognises the significance of high hygiene standards, Smith claims that “generally auditors must come up with non-conformances if only to justify their existence and fee”. Love Bites, accredited with an overall grade A by the British Retail Consortium for food hygiene, incurred a non-conformance mark because of “some leaves found outside our compound”. He explains: “It was November when she [the auditor] came. It was 8am and the night before there had been a storm. We have to pay for a two-day audit for a company of our size. After not finding anything wrong on the first day, she told my production manager she would have a think about what to put overnight!”

Despite his frustration with some red tape aspects of the sandwich industry, Smith does not underestimate the importance of diligent allergen labelling. Last year, a teenager died after eating a baguette she had bought from a Pret a Manger outlet at Heathrow airport. The baguette did not have any allergen advice on its wrapper and there was no requirement for it to do so because of the reduced labelling requirements for food made onsite. Although Smith can understand the concerns of some small businesses over the cost and time it takes to label all food, he insists it is a step that needs to be taken to ensure people’s safety. “There are enough software packages around that can make the labels for you... you just need a good label printer. The Pret incident might have

“There are fewer people on the high streets now”

been a one in a million chance, but you still don't want to take it.”

Against the backdrop of declining high streets across the country, Jim Winship says, maintaining trade for sandwich bars and cafés has taken on fresh importance in supporting regional economies. “As more shops [along high streets] close, cafés and sandwich makers have a new role... they are sort of destination venues. They are places for people to go and meet their friends, to have a meal. They are also an important source of employment, which is crucial for their local area. They produce social and economic capital.”

A study by the Office for National Statistics found that nearly one pound in every five spent in retailers on UK high streets is now done so via the internet. And this trend is being mirrored by the fast food industry. A report by The NPD Group, a market research firm, predicted that the value of online takeaway and delivery retailers in the UK could reach £5bn in the next two years. This boom, the firm suggested, will be fuelled by the rise in smartphone apps making it easy to have different types of food delivered to people's homes or offices. Digital aggregators such as Deliveroo and Uber Eats act as a bridge between the customer and individual restaurants or chains, processing their order and payment, before collecting and delivering the food to them.

For Maria Di Tano, the manager of Brunel, an independent sandwich bar on the Strand in London, “technology” signifies one of the major challenges for SMEs. She says: “There are fewer people

on the high streets now. We rely on a regular client base, with local customers, in offices for example, and people walking by. We also do catering for weddings or events. But advertising is more challenging for us... We do have a website but we'd definitely want to improve it. It'd be easier if our menu was online or if people could order stuff online. But that takes time and money.”

Di Tano says that apps and delivery services have changed consumer habits. “People want speed and convenience,” she says. “We have a good location, but we'll still have quiet months. For us it doesn't make sense to sign up to Deliveroo or Uber Eats, because they charge quite a big commission [20-30 per cent] to list you.”

Di Tano says “support” for SMEs can come from both government and industry. More ring-fenced loans at favourable rates to help SMEs to adopt technology, she agrees, “would be a good idea. And there's also an opportunity for the apps to be part of the change themselves. If they were to offer a cheaper rate for SMEs, for example, then it might be a way of getting more variety on there.” In any case, Di Tano recognises that a delivery service of some description is “probably going to have to be the next step.” And functionality and a bigger presence online is “definitely something that we have to look into seriously if we are going to compete.”

Bee Wilson, meanwhile, argues that an increased health consciousness among the general public, as well as a rise in the number of vegans in the UK, are other market trends for which SMEs in the sandwich industry must strategise. “The great question for small sandwich businesses is whether anyone can crack the question of developing more types of vegetarian or vegan sandwiches that people want to eat,” she says. “For all our talk of plant-based diets, sandwiches, as a rule, are still very much focussed on processed meat and cheese.”

According to comparethemarket.com, as of 2019, there are more than 3.5 million British people (around five per

cent of the population) who now identify as vegan, with this figure expected to grow in the coming years.

Gemma Pearson, who runs Cyril's, an SME sandwich bar in Margate, Kent, says that the best way to get around diminishing levels of footfall is to offer a product that people will want to travel to specifically. “Passing trade isn't always reliable. There's a big vegan and vegetarian market to be exploited. It was one of the first things we did when we started the shop, to learn about the ways we could make our menu more modern and appeal to a wider audience. Gluten-free bread was another thing we invested in.” Presentation, Pearson adds, is also key. “We made sure that our food was really well presented, that it was ‘Instagrammable’ if you like, so then people posted about us online, and word soon spread.”

The UK's decision to leave the European Union, the BSA's Jim Winship fears, is likely to have a “net negative” impact on the sandwich industry, “unless the government can negotiate better terms”. The prospect of a no deal Brexit would cause “a lot of problems” to do with employment and access to ingredients. “Freedom of movement is the big one,” Winship says, “and the government seems to get in a muddle with migrants versus immigrants in its language. Small sandwich shops rely on a steady flow of people coming into their sector. Also, think about the tomatoes, in particular, that are used in sandwiches. Access to those ingredients out of season, when we can't produce them ourselves, is hugely important. Products like that have a short shelf life, so border controls have got to be fluid.”

Ultimately, something which started off as a makeshift way of eating has since informed a broad culture and cuisine, while establishing itself as a major player in the economy. The future health of the UK sandwich SMEs, Winship says, will hinge on “what sandwich shops are able to do in the market, how well they can cope with trends and the nature of their competition, but also on what the government is prepared to do to help.”



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Jonny Ball looks at the sale of 5,261 small business properties by Network Rail, and how the government's disposal of public land is affecting the UK's SMEs

Selling the land from under small business



Under the raised railway lines of South and East London – the semi-industrial spaces of garages, repair shops, design studios, cafes, bars and a whole range of startups attracted by the relatively low rents – a group of small business people have come together to form Guardians of the Arches, a tenant organisation which represents the interests of small businesses on railway property. The Guardians have now developed into a national organisation, which, a spokesperson told the *Financial Times* last year, could morph into a “trade union for small businesses”. Initially opposed to large rent hikes by their old landlord, Network Rail, the group made headlines at the end of 2018, when it was announced that Blackstone, an American private equity firm, and Telereal Trillium, a multi-billion pound property management and development company, would be purchasing an 150-year lease on Network Rail’s 5,261 rental spaces for a

price of £1.46bn, becoming the UK’s largest landlord for small businesses.

Prior to the sale, Network Rail, a public body, “were trying to realise the local increased value at every rent review possible,” says Chris Hill, a wine merchant operating from a railway arch in Leeds, and a member of Guardians of the Arches. “A few businesses in Bethnal Green and Hackney were presented with unbelievably large demands for rent increases and rent reviews, because of gentrification – because the perceived value of these properties had gone up in these areas... The [Guardians] came about from fighting what were, in some cases, just ridiculous demands of, initially, 300 per cent. But then, through battling, things were coming down to 160-odd per cent. Still an enormous jump when you’re running a small business.”

According to a letter the group sent to Jo Johnson, the then railways minister, in August 2018, Network Rail had

approached one railway arch tenant for a rent increase of 345 per cent, before the arches were sold on to private owners just months later. That particular increase was delivered to a 93-year-old mechanic who had been supplying drivers with MOTs for 60 years, until Network Rail announced rent would more than triple from £33,000 to £147,000 a year. The suspicion of many small businesses is that Network Rail was raising rents in advance of privatisation, increasing its revenue stream to boost the eventual sale price.

In the final year of Network Rail’s management of the arches it received £83m in rent from its SME tenants. However, in a National Audit Office report released in May, it was revealed that, in the course of the sale, Network Rail had factored in a doubling of rental income from the properties over the next nine years, to £160m a year by 2027 – an attractive prospect for all of the 35 initial private bidders in the first phase of the



sale. “[Rent] inflation is built into the deal,” Chris says. Another contractual stipulation highlighted to *Spotlight* by Meg Hillier MP, chair of the Public Accounts Committee (PAC), is that the new multinational landlords, “can break the Landlords and Tenant Act of 1954. The new tenants won’t have the same protections as existing tenants,” meaning they will be automatically denied security of tenure. Following an inquiry, the PAC will publish a full report into the sale, planned for the autumn. Many tenants were “essentially being priced out of the market because Network Rail decided that they should be paying more rent in line with unsustainable commercial property bubbles in the middle of London,” says Chris. “[They] were using every tactic that they could to hike up the rents on the arches. Then the Department for Transport decided Network Rail had to reduce their debt. So they had to flog off some of their assets, as demanded by

Chris Grayling – at the time.” But it is in the nature of these sales that the state only receives a one-off cash payment, and loses an essential asset, or piece of infrastructure, that could potentially provide income for generations to come, as well as providing secure working spaces for small business people and traders – “everything from bakeries in Hackney to gin cafes in Gateshead,” Hillier says. Her interest in the arches stems not only from her position on the committee but also as a constituency MP in Hackney South and Shoreditch. As she pointed out at a PAC hearing in June, “what is left to sell if there is another gap in funding?” In an agreement between the Department for Transport, the Treasury and Network Rail, the organisation can use £500m of the proceeds from the sale to plug its funding shortfall. The remainder will be used to offset borrowing from the department.

The sale of public property as a quick fix for funding and budget issues is not unique to Network Rail. “In a way,” Hillier warns, “Network Rail and the sale of arches is presaging the potential sale of other assets.” Public bodies, in particular local authorities across the UK, are currently attempting to deal with severe budgetary constraints, and are finding short-term solutions to their financial problems by trading their land assets for cash, a boon to developers and large landowners. *Start Me Up*, a 2016 report into the value of workspaces for small businesses, entrepreneurs and artists, conducted by the Institute for Public Policy research, found that “decreased local authority spending has led to sharp rent increases for council owned property.” Labour has called for the end of the “sell-off of public land to the highest bidder,” criticising a process which is largely under-scrutinised and about which there is little transparency. While public procurement at the local level is heavily regulated, and while regulations state that local spending above £25,000 has to be published as open data, there is little clarity around so-called “property disposals” in the public sector. In addition to budget cuts forcing difficult choices,

since 2015 the government has operated with a target of selling £5bn of public land assets by 2020, ostensibly linking the policy with a move to free up idle land and encourage developers to build much-needed housing. But, according to a report into the government’s land disposal strategy by the National Audit Office, “Network Rail excluded land with known residential development potential from the sale” – which means that no houses will be built on the privatised sites. Evidence heard by the PAC from Charles Roxburgh, second permanent secretary at the Treasury, revealed that the arches sale “rescued” the previously unmet £5bn target.

“The railway arches are, in some respects, a microcosm of what’s going on in the world of small business generally,” says Will Brett, a former director of communications at the New Economics Foundation (NEF), who now acts as a consultant and spokesperson for Guardians of the Arches. “In other ways it’s quite particular, because you have these properties that have always been sub-market – they’ve always been damp, noisy, a difficult shape, no ventilation. For that reason they encouraged all sorts of start-ups and exciting incubators of small business, precisely because they’re sub-market, and because small businesses find it hard to find space in the modern commercial property market these days.” Research by NEF, conducted prior to the privatisation of the arches, found that railway arch businesses, 99 per cent of which are not large chains, contribute £725m to the UK’s GDP every year. In addition, before the sale, they were contributing £83m in rental income to the public coffers. Now, post-sale, if the planned rent projections are to be believed, they’ll be contributing double that, but to a private consortium. In the process, the worry is that many of the existing businesses will have to leave. “A public asset, belonging to you and me as a taxpayer,” Hillier says, “is being sold off, on this long lease, with nothing to stop the company then selling it on.” The future of many small businesses under the arches now hangs in the balance.



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