

Navigator 2020

United Kingdom



Together we thrive

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Introduction

After a long lockdown and a crippling economic contraction in Q2, the UK had a good summer. Retail sales and jobs were up, while stamp duty cuts boosted the housing market. COVID-19 infection rates were climbing again as our 2020 Navigator survey launched. Since then, the government has extended measures to help jobs and businesses, and the news of a vaccine has caused an uptick in positivity during a second national lockdown. However, low business confidence, rising unemployment and a partial or no-trade deal Brexit could threaten recovery in 2021.

1. Overview

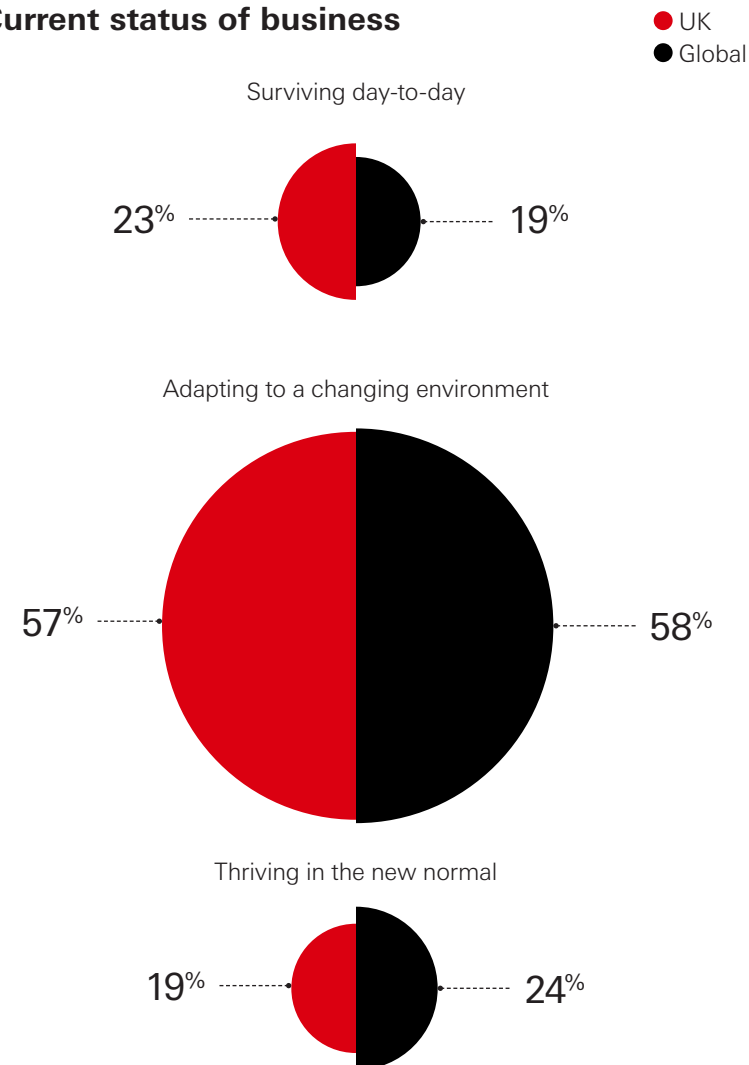
The results of our 2020 Navigator survey point to **uncertain times ahead**

Business optimism has declined sharply in the UK and expectations of future revenue growth in the next year are lower than in 2019. However, more than half of UK businesses are adapting to the new environment, with around a quarter surviving day-to-day – slightly more than globally or across Europe.

More UK businesses also identify COVID-19 as the single biggest driver of growth and recovery (38% compared with 32% globally). And despite the challenging environment, six out of ten UK businesses (62%) intend to increase investment in their business in 2021.

The outcome of Brexit trade negotiations remains to be seen. For the moment, trade with Europe remains dominant, while the US remains the top trading partner.

Current status of business



2. Business outlook

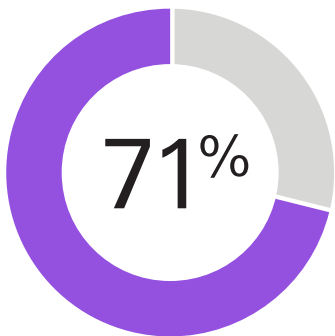


The UK is adapting to COVID-19, with **defensive cost-cutting** its main strategy

Business optimism has declined sharply in the UK, and businesses' expectations of revenue growth in the next year are lower than in 2019. The drop – which is broadly in line with Europe – is led mainly by businesses in the North West, one of the regions hardest hit by COVID-19-related restrictions.

However, seven in ten UK businesses expect to have returned to pre-COVID levels of profitability by the end of 2022 and a fifth by the end of this year.

The resurgence of COVID-19 is the primary concern for growth and recovery. More positively, it's also the biggest driver of sales growth. Unlike the global picture, but in line with Europe, defensive cost-cutting will be the predominant strategy of UK businesses when dealing with either scenario.



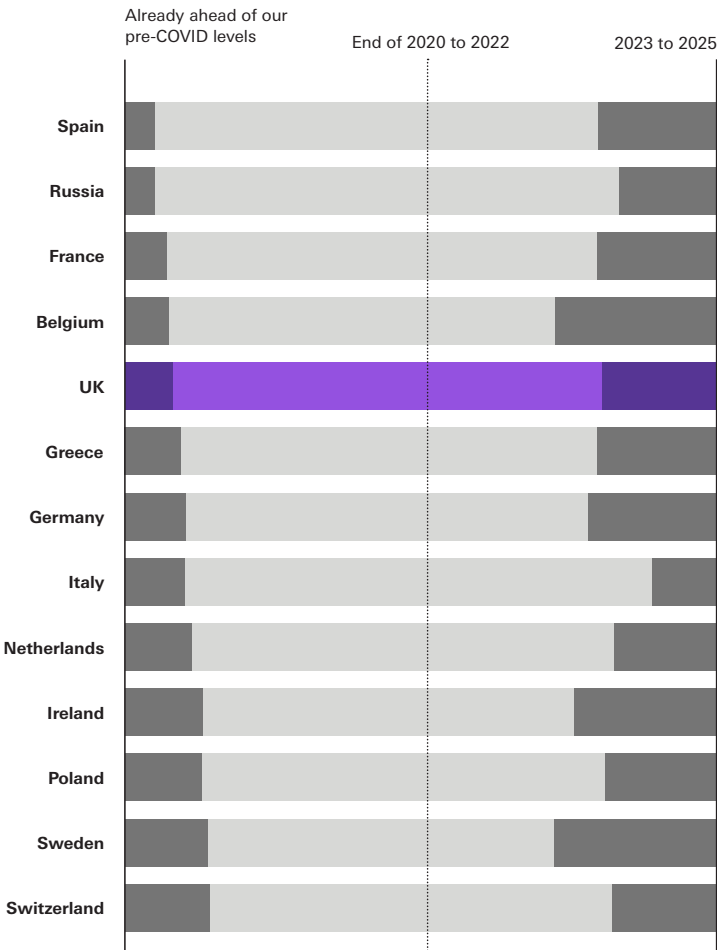
of businesses expect to return to pre-COVID profitability levels by the end of 2022

Top 3 drivers of business growth



When businesses expect to return to pre-COVID levels of profitability

%

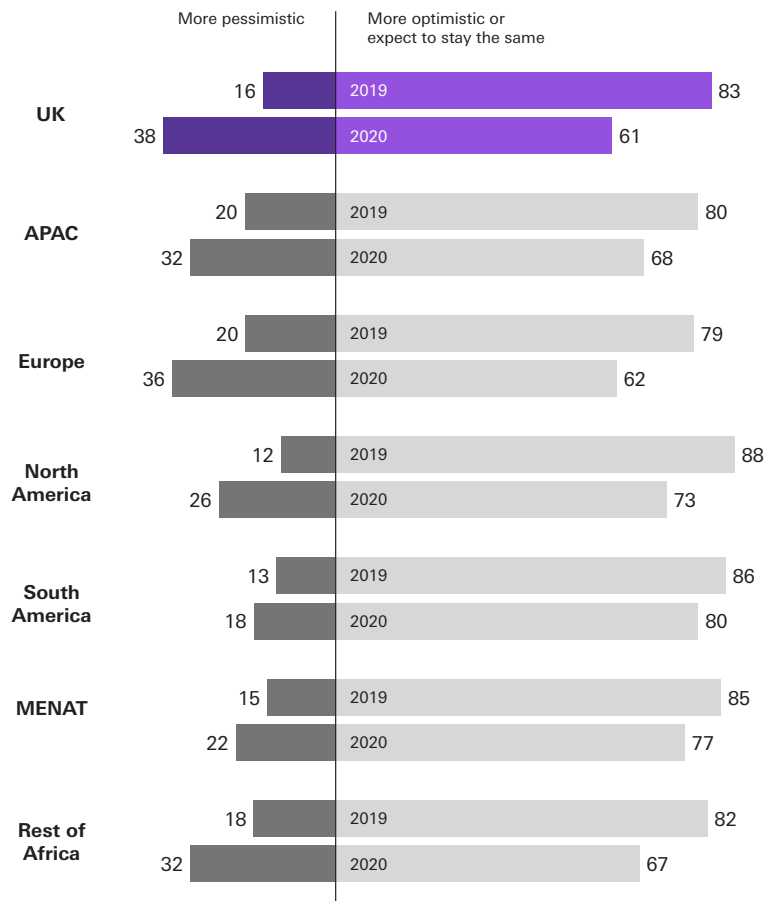


2. Business outlook (continued)



How business outlook has changed in the last 12 months*

%

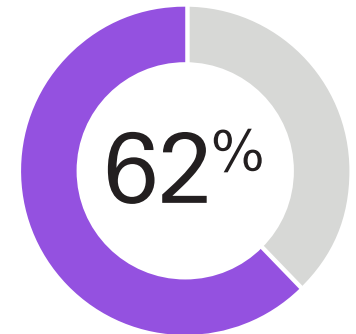


*Excludes businesses answering 'Don't know'

UK businesses are still investing to grow

In line with globally, the events of 2020 have not dampened the inclination of most UK businesses to invest to grow. Slightly more than three in five intend to increase investment in the next year.

More than half identify employee wellbeing (55%) and the customer experience (53%) as investment priorities in 2021, above the global average. Increasing cash flow/capital management, cyber security and data protection are the next highest priorities. This suggests UK businesses are taking a well-balanced approach by investing across important parts of their business. To enable this, they intend to invest in technologies that help customer targeting/experience and improve speed to market.



of UK businesses intend to increase investment in their business in the next year, despite the challenging environment

Strategies of UK businesses to benefit from growth drivers and address threats



3. Future strategy

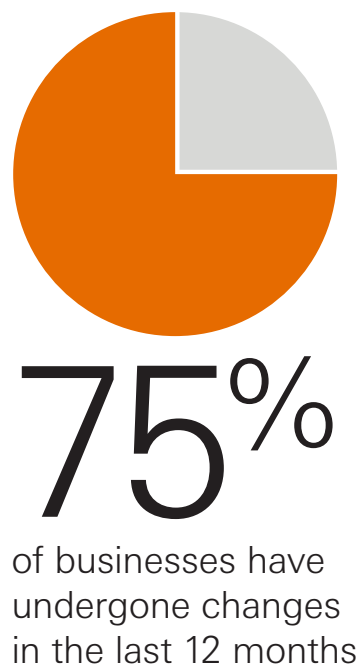


Most UK businesses are **ready to adapt** to a post-COVID environment

The level of change seen in UK businesses is close to the global picture and across Europe. The largest group – just over four in ten – have undergone short-term changes but expect to return to previous operations. The second group – around a quarter – have undergone long-term/transformational changes, and the third group (a quarter) have continued as before. Changing ways of working and reducing costs are key drivers of change.

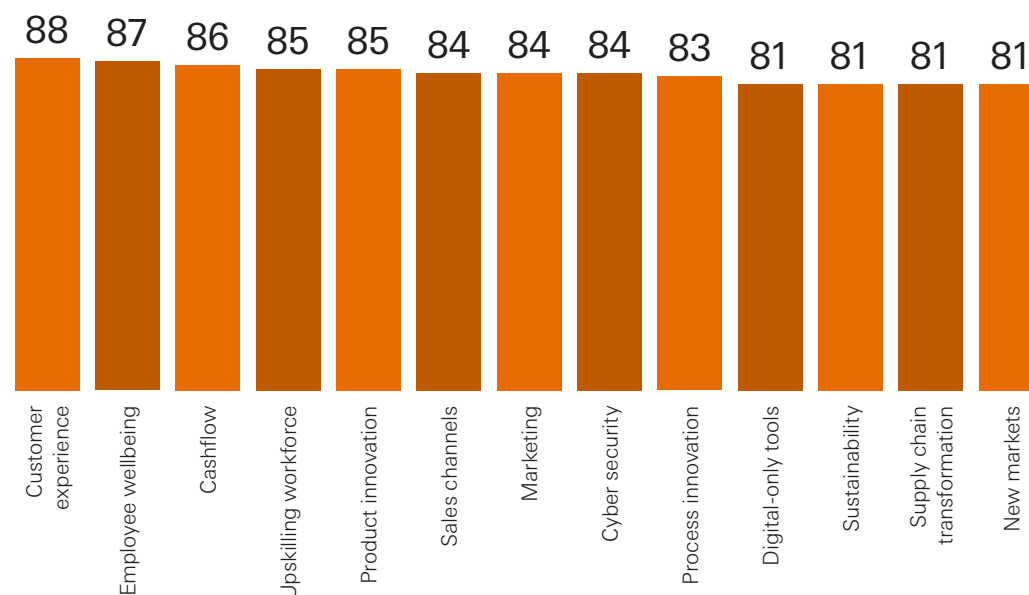
More of the companies that continued as before, or underwent short-term changes, have positive expectations of sales growth than those that underwent long-term/transformational changes.

UK companies expect technical innovation and capacity for change to become more important characteristics of an entrepreneurial business. More UK businesses than the global average believe taking risks will remain as important as today.



Investment priorities enabling businesses to move forward

%



Top 5 facets of a successful entrepreneurial business



4. International trade



Despite Brexit uncertainty, **businesses remain upbeat** over international trade

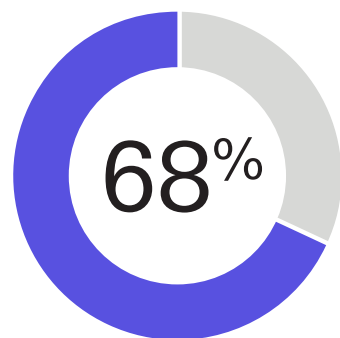
Although most UK businesses feel that international trade has become more difficult, the outlook remains positive.

For more than a quarter (28%) of international companies* in the UK, over 50% of their business is international – the same as in 2019. Two-thirds (64%) are trading within Europe compared with a quarter (25%) trading with North America.

The US, France and Germany remain important markets, with no pre-Brexit reduction as yet. However, compared with last year, fewer UK firms say they are looking to expand in Europe in the next 3-5 years.

For businesses in the UK looking to expand to new markets, the top three criteria are proven/growing customer demand (51%); the market being a gateway into the region for their business (45%); and intending to expand in this market before their competitors (43%).

* An international business is any that describes itself as: buying products internationally or using services provided by businesses in foreign countries/territories (importer); selling products internationally or providing services to businesses in foreign countries/territories (exporter); having a physical presence in more than one country/territory; being an international subsidiary of a company headquartered abroad.



of companies are positive about their international trade prospects for the next 1-2 years

Protectionism

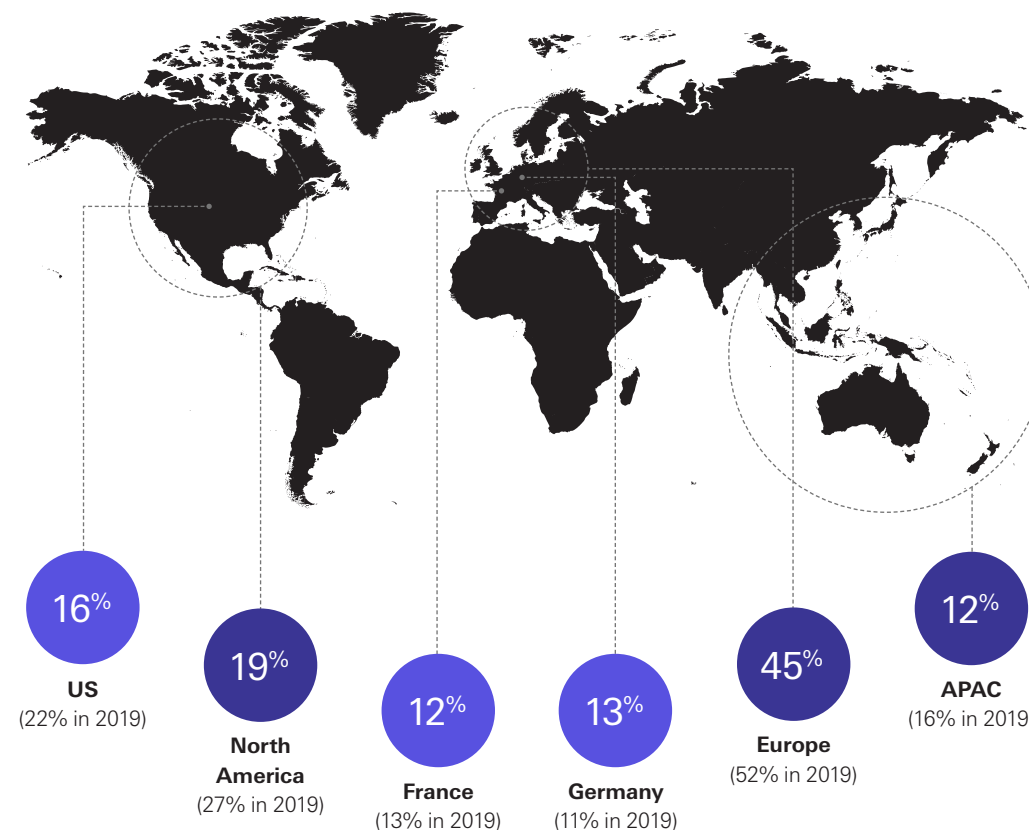
Percentage of businesses that think that countries/territories/governments are becoming more protective of their domestic businesses



Priorities for expansion in the next 3-5 years

Markets, territories and regions in which UK businesses are looking to expand

● Markets & territories ● Regions



5. Reshaping supply chains

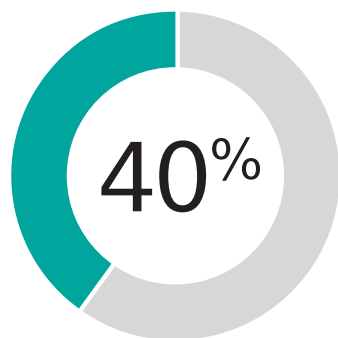


Businesses are instigating **tougher supplier criteria** to mitigate the effects of COVID-19

With most UK businesses (90%) expressing concerns about their supply chain, many have been selecting suppliers based on their government's control of COVID-19, as well as on their operational resilience and ability to deliver. They have also increased their use of digital technology, and seek suppliers that have done the same.

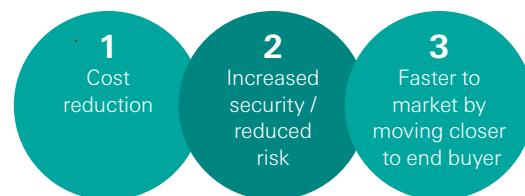
UK businesses have made these changes to alleviate concerns around supplier security, reliability and transparency. There are almost equal proportions diversifying and reducing their supply chain, with almost a quarter (23%) focusing on suppliers in their home region.

Investment priorities reflect key areas of change. For the majority of UK businesses (81%), the use of digital/technology is the priority for their supply chain immediately in 2021 and beyond. UK businesses expect cost reduction, a more secure supply chain and increased speed to market to be the positive outcomes of making these changes.



of businesses expect that reshaping their supply chain will reduce costs

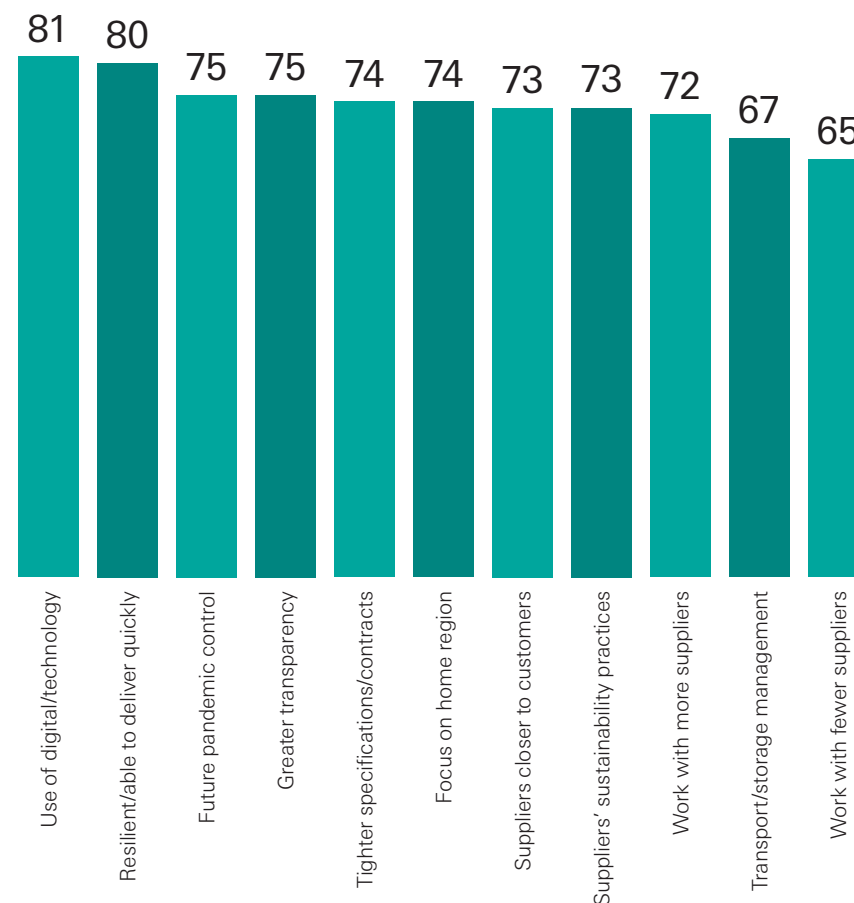
Top 3 benefits of reshaping the supply chain



Priorities for the supply chain

(Priorities immediately in 2021 and beyond)

%



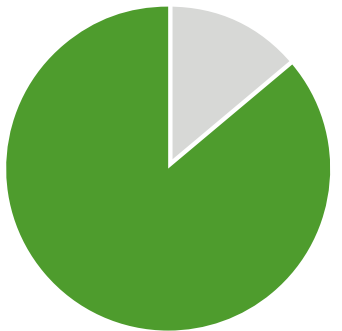
6. Sustainability



Most UK companies see environmental and ethical sustainability as **good for business**

Sustainability is an important factor for UK businesses. Two-thirds (65%) of companies have set targets for a broad range of environmental, social and governance (ESG) measures, and between three and four in ten have annual targets in place, most notably for executive salaries, energy usage and diversity at all levels. More UK businesses are also measuring more ESG aspects of sustainability than in 2019. In line with the global trend, the levels for measuring governance are lower.

Almost nine in ten UK companies think that improving environmental and ethical sustainability brings multiple opportunities, particularly introducing new ways of working and promoting employee wellbeing. And more than three-quarters of UK companies (78%) expect their sales to grow through their greater focus on sustainability.



86% of UK companies think there are multiple opportunities for their business from improving its environmental and ethical sustainability

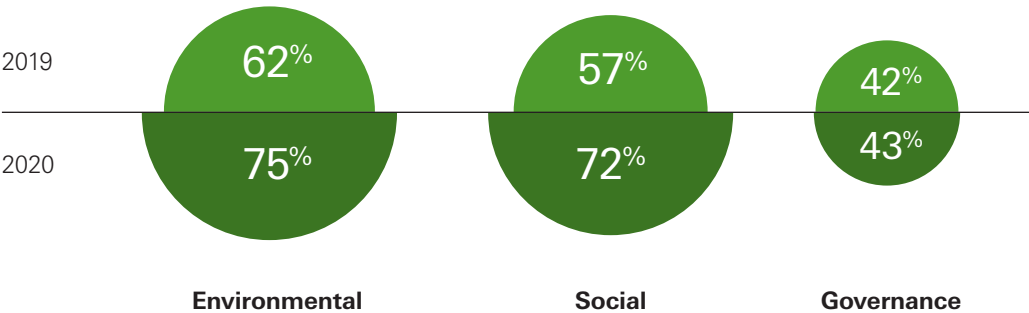
Companies believe a greater focus on sustainability will drive growth

- 38% expect modest growth of up to 5%
- 29% expect growth of between 6% and 9%
- 11% expect growth of 10% or more



Measuring sustainability

More companies in the UK have been measuring all 3 aspects compared with 2019



About HSBC Navigator UK

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, future strategy, international trade, supply chains and sustainability. It is compiled from responses by decision-makers at 10,368 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 39 markets.

Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 1,000 businesses surveyed in the UK. Global results are based on an average of the 39 markets (using weights based on each market's share of world trade). The survey was conducted between 11th September and 7th October 2020. Interviewees were polled on a range of questions including how COVID-19 has affected their business and potential for growth. The survey represents a timely source of information on the fast-evolving international business environment.

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Or click on
www.business.hsbc.com/navigator/uk

Note

There may be a slight discrepancy between the sum of individual items and the total as shown in the tables due to rounding.

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