

Reboot & Reimagine

Sustaining SMEs

Make the case



SME Sprint Messaging | June 2020



90% of Ibec
members
are **SMEs**



SMEs & Ibec

- Ibec is Ireland's largest business representative. The structure of Ibec membership is reflective of the Irish economy with 60% of Ibec members employing under 50 employees and 30% employing between 50-250 employees. Our positions and policies are shaped by our diverse membership who range from home grown to multinational and employ 70% of the private sector workforce in Ireland.
- An SME employs up to 250 people. They are the lifeblood of the Irish economy accounting for 99% of active enterprises and 70% of employment. The people who create and lead SMEs all over Ireland are incredibly diverse - from family owned business, rural-owner managers, traditional, high growth and technology start-ups. They work tirelessly across all sectors. They are the heart and soul of the Irish business model, supporting and collaborating with Irish and Foreign MNCs.

The scale of the problem for SMEs

- The SMEs worst impacted by the shutdown number over 100,000, employ over half a million people, and are significantly ingrained in the local fabric of communities up and down the country.
- Ibec's COVID-19 survey of over 550 CEOs showed that over 80% have seen a hit to their profitability in 2020. Two-thirds of those companies have suffered substantial losses. Almost 20% of CEOs have had to close their organisation completely. Almost half of CEOs expect a return to pre-COVID demand to take six months or more.
- For about 72% of companies, the minimum period in which they expect 'normal' demand to return is greater than their cash reserves. In other words, they have a 'liquidity gap' which will need to be bridged by external funding. For 30% of firms that gap is greater than 6 months.

SME cashflow modelling

- With no time to adjust and incredible pressure on cash flow in the economy, for business, this recession is like no other. This has left many SMEs exposed with bills piling up, expensive stock and payment timelines stretched. While the economy re-opens, the future is uncertain and many SMEs are wondering where they will get the cash to survive.
- Ibec has presented modelled examples of the economic impact on SMEs in the sectors most challenged by COVID-19. Through these examples and direct engagement with SMEs our evidence is that most will need 80% of pre-COVID demand to break even. Yet social distancing measures mean that many SMEs will have to operate well below capacity. As a result, those in consumer facing sectors may remain loss making through to 2021 on a month-to-month basis.

Results

- Ibec's cashflow modelling work shows that under the assumption that normality begins to return by the end of June and demand reaches break-even point by November, the average SME in consumer facing sectors will have fixed cost debts amounting to €45,000. This is regardless of being able to reduce its labour and cost of goods to zero as well significantly reduce its utility costs.
- This increased leverage is equivalent to almost 80 weeks post-tax profits. Over 40% of this debt is owed to the Revenue Commissioners and local authorities. Another 27% is owed to the firm's commercial landlord. The remainder is split roughly three ways between utilities, insurance and loan repayment, and suppliers.
- Ibec analysis does not take account of the additional working capital need of SMEs to re-finance existing debts, the tightening market for trade credit, or the need which will arise after a long hiatus with reduced demand.
- This increased debt has the same impact as a new tax on companies' profits – a 'Covid tax'. As it stands, an SME will pay 12.5% on its profits. The additional debt on their balance sheet due to COVID-19 will act as a 'tax' worth up to 56% on their net profits. In total, debt and taxes could take 68c in every euro an SME earns over the next three years.

Urgent action to sustain SMEs

To reboot SMEs it is crucial that the new 'July Stimulus Plan' delivers the following three outcomes:

- **Significantly improve the Restart Grant:** Increase the fund to over €1 billion, including a flat rate payment of €15,000 per company to match the German and UK schemes and remove the link to the rates system which disqualifies so many smaller operators
- **Introduce a new and radically improved 'bounce-back' credit guarantee scheme for firms with below 50 employees:** with 100% guarantees on loans, no portfolio limit and an interest rate holiday of 12 months followed by interest rates well below the eurozone average
- **Introduce measures to address fixed costs and debts:** Introduce a fund to write down debts under the Revenue tax warehousing scheme where they threaten business viability, extend the commercial rates waiver to six months with a further six-month deferral, and introduce a binding mandatory arbitration model for disputes over commercial leases. This arbitration model should include some State burden sharing based on the recent Swedish state-aid approved model.

Impact of urgent action to sustain SMEs

In the recovery following the last recession almost two-thirds of all net new jobs created in the private sector were created by SMEs. Global events now mean that this number will be even more important to reboot Ireland after COVID-19.

Ibec analysis shows that:

- A mix of low interest loans and cash grants will be needed to put SMEs on a sustainable path in the short-term. For some SMEs debt forgiveness may be needed on their tax debts in the longer term.
- It is only with a mix of grants, rates waivers, debt relief, and zero interest loans will SME profitability return to above its pre-COVID forecast for 2020 by 2022.
- Where debt with market interest rates is the only solution available, SMEs will not hit their pre-COVID forecast until 2024. Even with significant Government support, the total cost of COVID-19 related debt would reduce profits by 20% for a period of three to six years.
- Excess debt is proven to slow investment, productivity, and growth in SMEs. It is imperative that supports are put in place which ensure as low a debt burden as possible. If SMEs are left with significant balance sheet damage, this would represent a significant blow to the growth potential of the most labour-intensive sectors of the economy.

Reboot & Reimagine Campaign

- Ibec's *Reboot & Reimagine* campaign provides a blueprint for a sustainable future for Ireland addressing the economic and business impact of COVID-19 as well as a plan for achieving a better Ireland by tackling the country's acute and significant challenges, including Brexit.
- *Sustaining SMEs* is an Ibec initiative to highlight the urgency of SME sectoral recommendations in Reboot & Reimagine.
- In developing the over 200 recommendations in Reboot & Reimagine, over 550 CEOs responded to an Ibec survey providing insights on the present and future impact of COVID-19 on the Irish business model. In addition, business of all sizes and activity engaged through the Ibec Board, National Council and policy committees. We also listened to the challenges and opportunities identified by Ibec's 36 Trade Associations, sector by sector, who were actively engaged in the development of this campaign.
- To get behind *Sustaining SMEs* on social media, please reshare and post using our 3 key priority messages on slide 4 and the hashtags #rebootreimagine and #IrishSMEs. Please also encourage appropriate contacts to do the same on Twitter and/or LinkedIn.
- More information about the campaign, our events and podcast is available at [Ibec's website](#).

Ibec Trade Association's Sustaining SMEs

