Unsplash © Roland Cartagena

Business Distress Index: Outlook on the financial health of UK’s youngest businesses

By capturing the impact of the coronavirus pandemic on infant businesses in the UK throughout Q2, we can track financial distress, sector-specific struggles and compare month-on-month statistics as the economy continues to battle the harsh consequences of COVID-19 and enters into a new phase of recovery.

A quick peer at global news and a stroll down the British High Street can give you a snapshot of the state of the UK economy as it reawakens from a slowdown in trading. As the phrase, ‘business as usual’, is no longer uttered in vain due to the enforcement of strict social distancing measures and a cautious customer base, sectors are reopening, supply chains are resuming operations and newly born businesses are stepping out of their shell.

Dissecting business distress data from the Business Distress Index, released by Real Business Rescue, we assess the health of startups during April – June (Q2), which mirrors the lockdown period. Analysing the sector breakdown and levels of distress endured in comparison to January – March (Q1), we detail the financial rankings of young businesses in financial distress.

The survival rate of startups during Q2 2020

The statistics show an 18 per cent increase in startups in significant financial distress compared to the last quarter, as a result of the coronavirus pandemic. Breaking down the data, as supplied by Red Flag Alert, there are 92,000 young businesses in the UK in distress, aged three or under, reflecting an increase of 14,000 to the previous quarter which found 78,000 businesses in difficulty.

Taking a detailed view of the increase in financial distress for startups in specific sectors compared to Q1, we rank the top five industries.

Telecommunications & IT – 21% increase since Q1 2020

Industrial Transportation & Logistics – 21% increase since Q1 2020

Travel & Tourism – 21% increase since Q1 2020

Health & Education – 20% increase since Q1 2020

Construction – 20% increase since Q1 2020

As non-essential domestic and international travel faced suspension to control the spread of the virus, the travel and tourism sector was injured by non-existent sales and fading supplier contracts, resulting in aircraft to be temporarily grounded, causing a wave of mass redundancies. As this had a domino effect on the industrial transportation and logistics industry, supply chains halted production, shipments and fulfilment, directly impacting the productivity of businesses in the UK, limiting product availability.

The construction sector experienced a surge in financial distress due to project cancellations following significant dips in funding and unavailability of raw materials, forcing businesses to revisit their financial position and divert focus to business continuity. The telecoms sector was pushed to halt investment in new technology as custom dried up during Q2, forcing the industry to introduce virtual communication platforms into their service delivery to adapt to social distancing measures.

Breaking this into regional data, businesses in Wales experienced the largest increase, followed by London, and then the Midlands. The Business Distress Index infographic providers deeper insight into the number of jobs at risk per sector and tracks the level of business experienced by businesses year-on-year, starting from 2005.

The fate of UK businesses in financial distress during COVID-19

The coronavirus pandemic has threatened the livelihood of families across the country, from globally established household names, startups, and independent shopfronts who outlived the last economic crash. As a response to an unprecedented market environment, growing discomfort amongst SMEs and deteriorating business health, the government announced a series of financial support measures to offer a lifeline to viable businesses adversely impacted by the pandemic. The general insolvency outlook shows that companies edging near the finishing line are likely to run out of time once government funding drastically tapers down, leaving no option but to seek company liquidation or an urgent business rescue procedure.

> *“The pandemic is doubling as a mass cleansing tool to weed out businesses on the brink of failure, pushing them to either fall from grace or resiliently endure the rough trading conditions, and come out victorious by protecting the financial health of the company.”*

As the end to the furlough scheme approaches and the Help Out to Eat Out scheme closed its doors after one month, businesses will be forced to contend with changing consumer behaviour and adapt to a new era shadowed by the coronavirus pandemic. Battling between company closure and company rescue, businesses are likely to increase their chances of survival by embracing adaptability, showcasing resilience and building a war chest.

Jonathan Munnery is one of the founding partners at UK Liquidators, UK’s largest company liquidation service provider, made up of a team of heavyweight licensed insolvency practitioners and business rescue experts. Jon works closely with company directors drastically impacted by the coronavirus pandemic, guiding them onto the road of recovery or helping them seek a cost-efficient company closure solution.

Read also

Edtech investment accelerated by COVID-19

Article by JONATHAN MUNNERY