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Impact of COVID-19 on Small and Medium Businesses

Authored by



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HOW IS COVID-19 IMPACTING SMALL AND MEDIUM BUSINESSES?

We all know from both personal experience and the news that COVID-19, also known as the novel coronavirus, is having a devastating effect on small and medium businesses (SMBs)—the engine of the U.S. economy and those around the world.

But how deep and broad is the impact? We've sought to answer that question in a survey of more than 500 SMB (1- to 1,000-employee businesses) and midmarket (1,000- to 2,500-employee businesses) decision makers and influencers. The survey was fielded from March 23 through March 30, 2020—which is very important to note, as the trajectory of the virus is constantly changing.

In this eBook, we share key findings from this study, along with selected data from prior SMB Group studies, to deliver insights to help inform decisions about how to best serve and support SMBs during this difficult and volatile time.

According to the U.S. Small Business Administration, there are 30.2 million small businesses (with less than 500 employees) in the United States, accounting for 99% of all U.S. businesses and employing 47.5% of U.S. employees.



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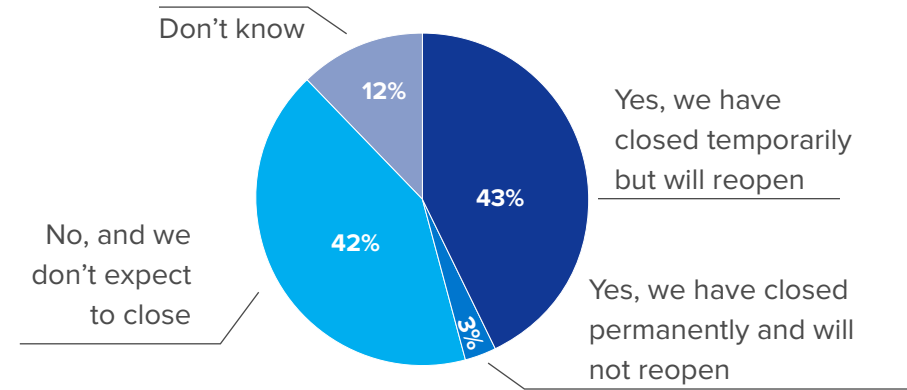
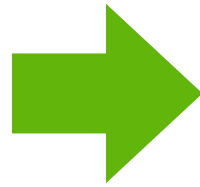
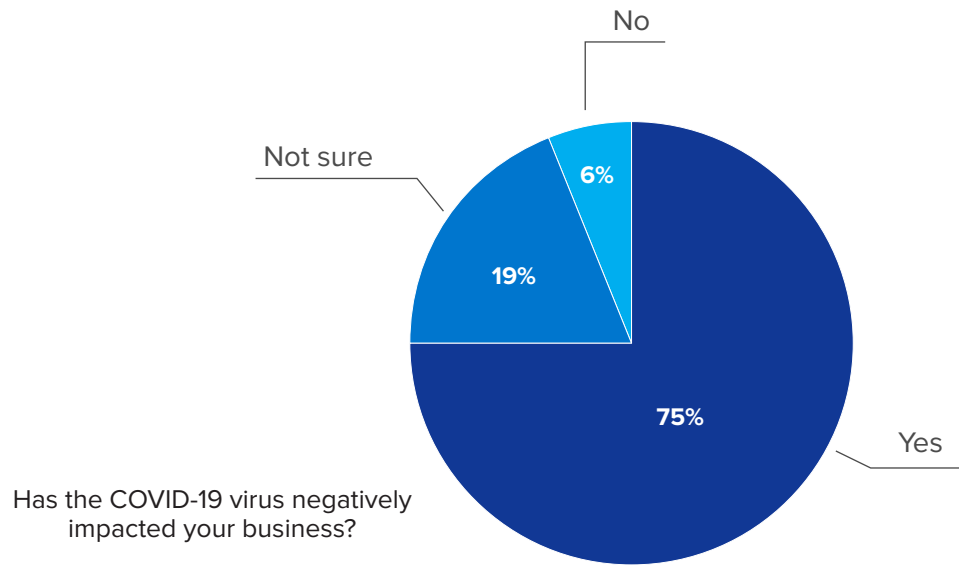
THE NEGATIVE IMPACT OF COVID-19 ON SMBS CANNOT BE UNDERESTIMATED

Just a few months ago, SMB Group's 2019 *SMB Digital Transformation Study* indicated that 64% of both small and medium businesses were optimistic about revenue growth.

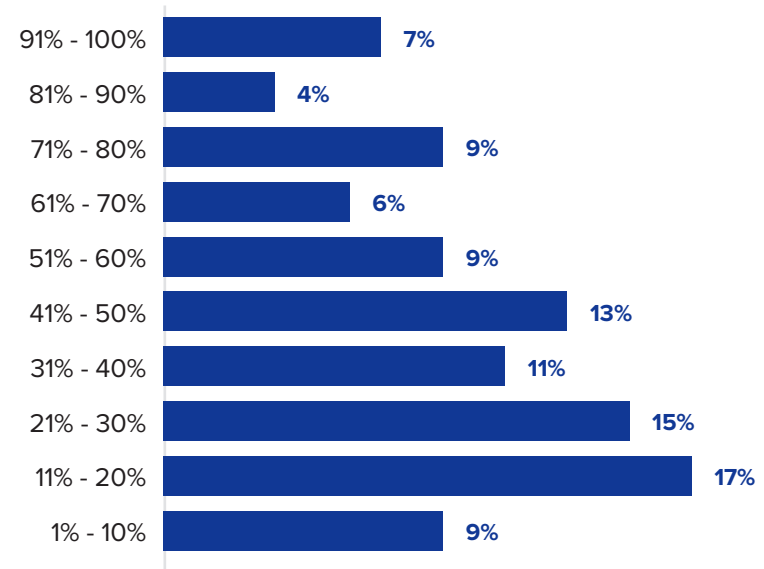
COVID-19 has dashed this optimism for the vast majority of SMBs. Now, a staggering 75% of all SMBs report that COVID-19 is negatively impacting their businesses.

The effect on revenue expectations is dramatic: Among the 75% of SMBs experiencing a negative impact, 60% anticipate that their revenues will shrink by at least 30% in the next six months.

Furthermore, 3% of SMBs have already closed their businesses permanently, while 43% report they have closed temporarily but plan to reopen. However, the worsening economic situation will force more businesses to shut their doors permanently.



Has your business closed or do you expect your business to close for a period of time due to COVID-19?

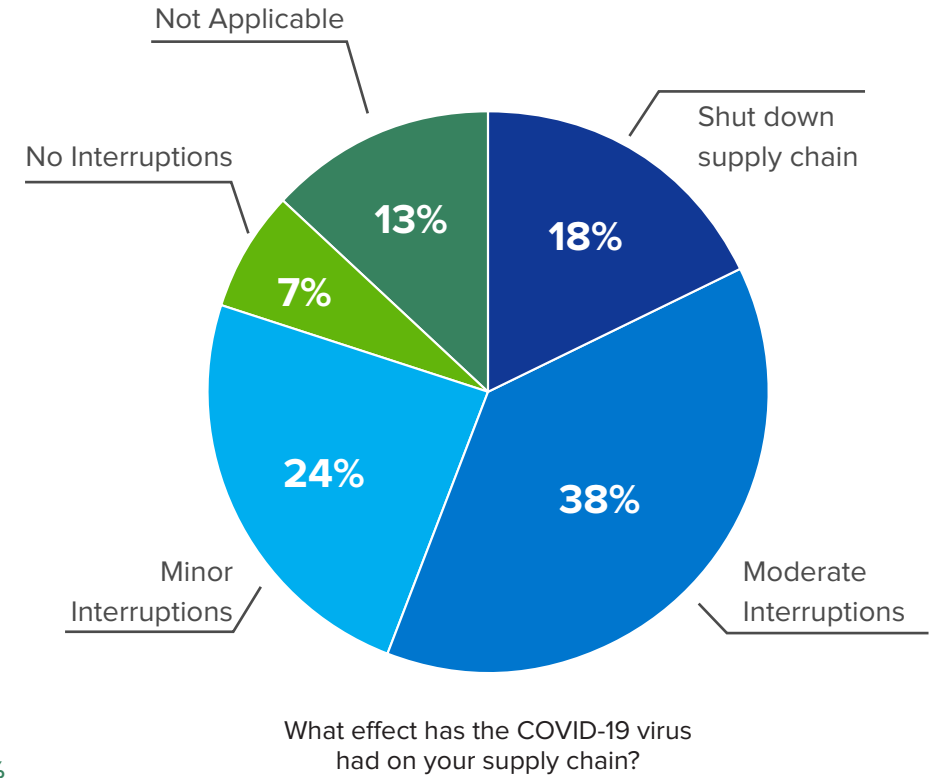
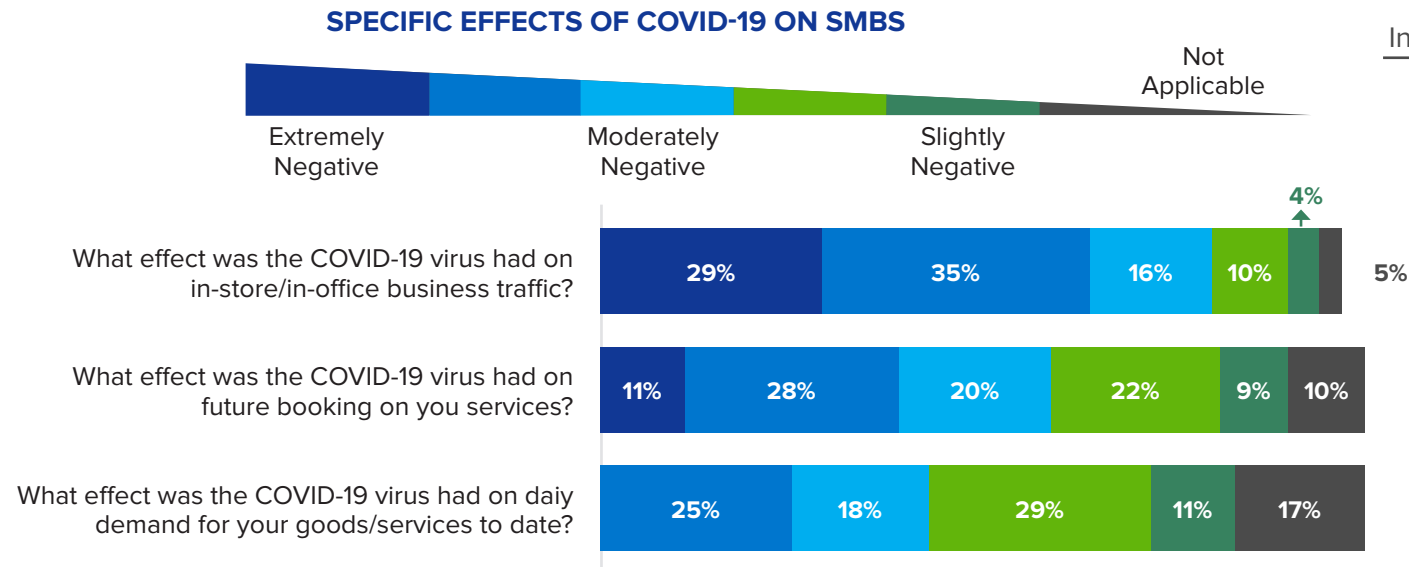


THE VIRUS IS AFFECTING ALL ASPECTS OF SMB OPERATIONS

SMBs are experiencing the negative impact of COVID-19 across all aspects of their businesses.

The majority of SMBs say the virus has had a negative impact on daily demand for their goods and services, and 59% have seen moderate or extreme downturns in future bookings.

Depending on the type of business, some of these effects will be magnified. For instance, 29% of respondents say that the pandemic is having an extremely negative effect on in-store/in-office traffic—disproportionately hitting industries such as retail, hospitality and personal services businesses ranging from spas to dental offices. These businesses all rely heavily on in-store traffic for their revenues—and will be hard-pressed to recoup lost income.



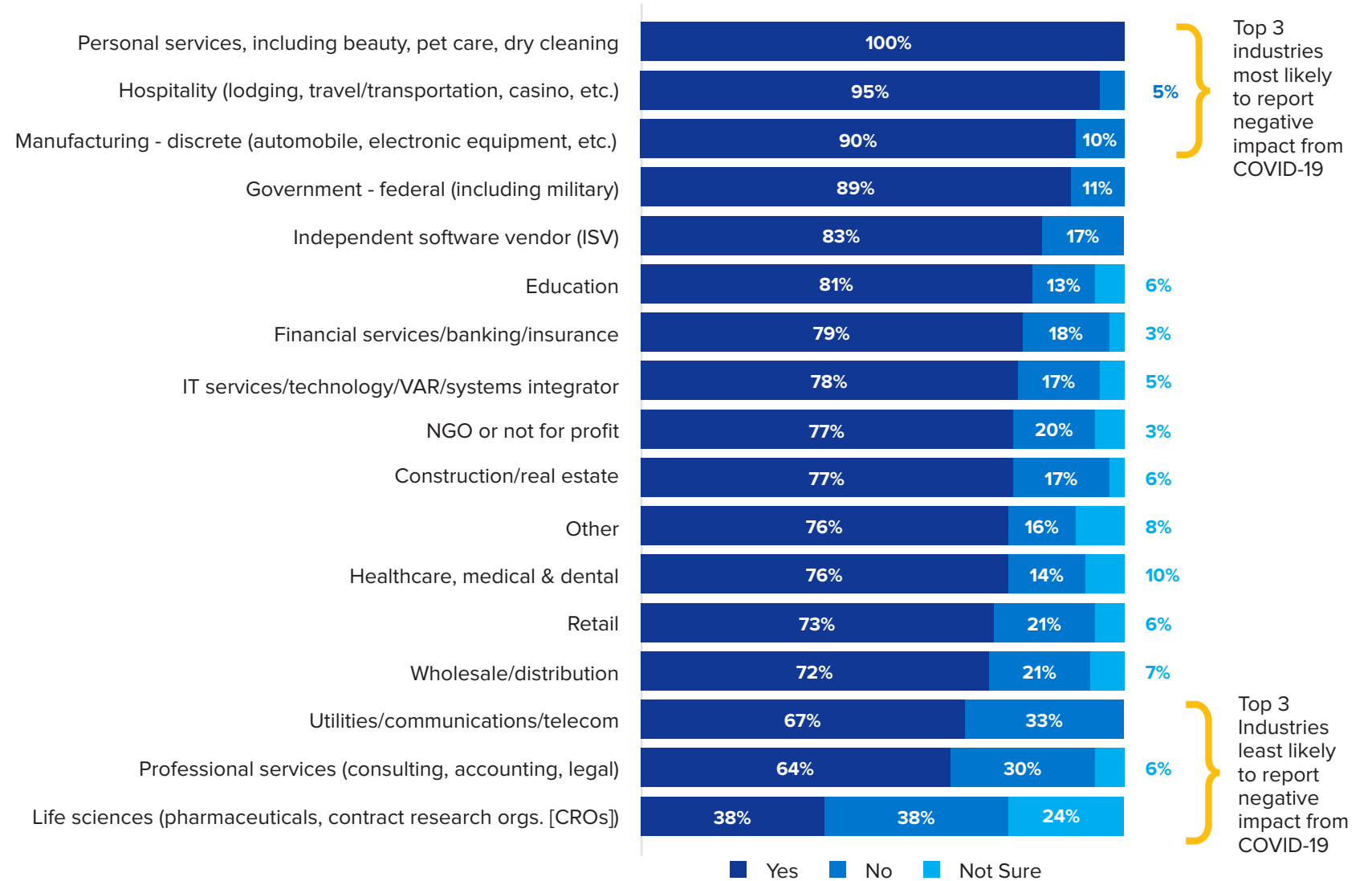
COVID-19 TAKES A MUCH TOUGHER TOLL ON SOME INDUSTRIES THAN OTHERS

At least two-thirds of respondents in all industries—except life sciences—say their businesses are negatively impacted by COVID-19.

However, the depth of this impact varies by industry. Personal services, hospitality and manufacturing are taking the biggest hits, with 100%, 95% and 90% of respondents in these industries, respectively, saying they are negatively impacted.

In contrast, 38% of life sciences companies, 64% of professional services firms and 67% of utilities report negative business effects from the virus.

Looking ahead, survey results also show that personal services, hospitality and retail businesses are most likely to believe that the situation will worsen for their businesses over the next six months, while software vendors, financial services firms and educational organizations are more optimistic that business will improve over time.



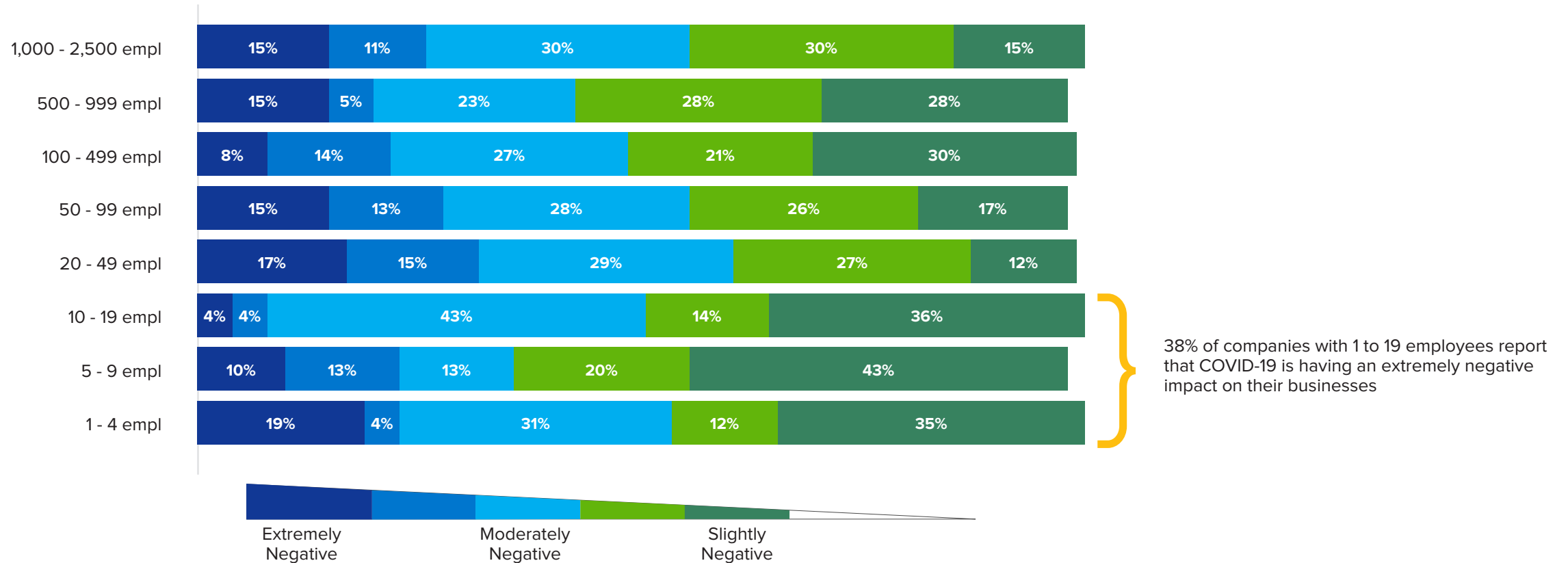
Has the COVID-19 virus negatively impacted your business?

VERY SMALL BUSINESSES ARE GETTING HIT THE HARDEST

Businesses of all sizes are feeling the pain of the pandemic, but among the 75% of businesses that are negatively affected, smaller companies are generally getting hit harder.

Businesses with fewer than 20 employees are most likely to experience an extremely negative impact. Many of these companies simply lack the cash flow and capital necessary to see them through an extended period of reduced or no sales.

These very small companies—especially those in the hardest hit industries—will need extra support to make it through the crisis.



Note: Totals may not equal 100% due to rounding.

To what degree has the COVID-19 virus negatively impacted your business to date?

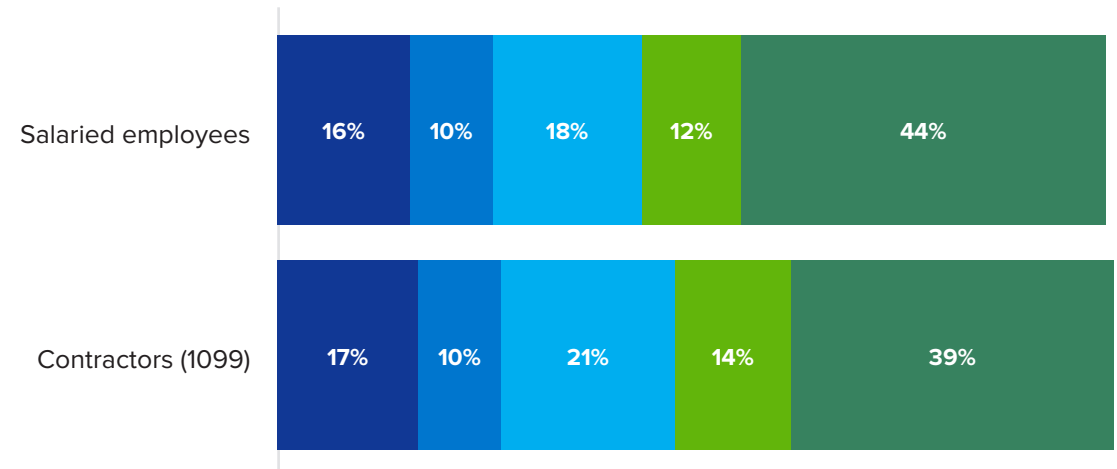
WORKFORCE REDUCTIONS ARE THE NEW NORMAL

Over the past few years, the strong economy has made it increasingly difficult for SMBs to attract and retain employees. In SMB Group's *2019 SMB 360: Connecting the Dots Between Business and Technology Study*, SMBs ranked attracting and retaining qualified employees as their number-three business challenge, and 57% were planning to boost hiring.

But as a result of the virus, more than half of SMBs are now dealing with the new reality of having to reduce hours and lay off both salaried employees and 1099 contractors.

34% of SMBs have already taken steps to reduce their salaried payroll through layoffs and reduced hours, and 38% have done the same for contractors.

Unfortunately, as the virus has yet to peak, these numbers will increase. Looking ahead, 24% of SMBs plan to layoff and/or reduce hours for salaried employees, while 22% intend to do so for contractors.



■ Have laid off ■ Plan to lay off ■ Reduced hours
■ Plan to reduce hours ■ No plans to lay off or reduce hours

Have you had to lay off or reduce hours for salaried employees or 1099 contractors due to the COVID-19 virus?

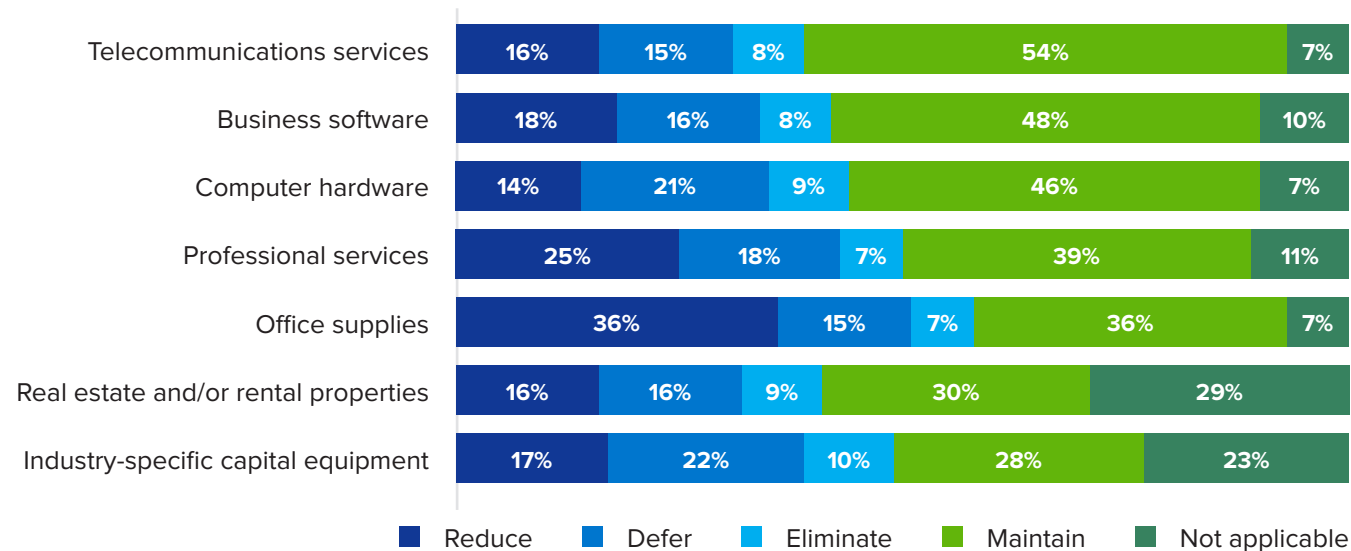
SMBS' PLANS TO CUT SPENDING VARY BY EXPENSE CATEGORY— AND RISE WITH COMPANY SIZE

Office supplies, professional services and industry-specific capital equipment are slated for the biggest cuts.

SMBs are most likely to plan to maintain spending on business software and telecommunications. Companies can use these services not only to engage and transact with their customers, but also to introduce new services that are geared toward serving customers in the current “#stayathome” environment.

Overall, SMBs are looking to preserve precious capital and cash flow by slashing spending on non-employee goods and services by an average of 37%.

It is concerning that larger businesses plan to cut spending more heavily than smaller ones. Perhaps this is because they have more fat to trim. But spending cuts by large businesses will trickle down and create more hardship for smaller suppliers.



Number of employees	Average % decrease in non-employee spending
1-4	38%
5-9	38%
10-19	37%
20-49	32%
50-99	30%
100-249	37%
250-499	40%
500-999	43%
1,000-2,500	41%
Average	37%

Plans to reduce overall spending on non-employee goods and services

Do you plan to reduce, defer, eliminate or maintain expenditures for the following (non-employee) goods and services, or have you already made such changes?

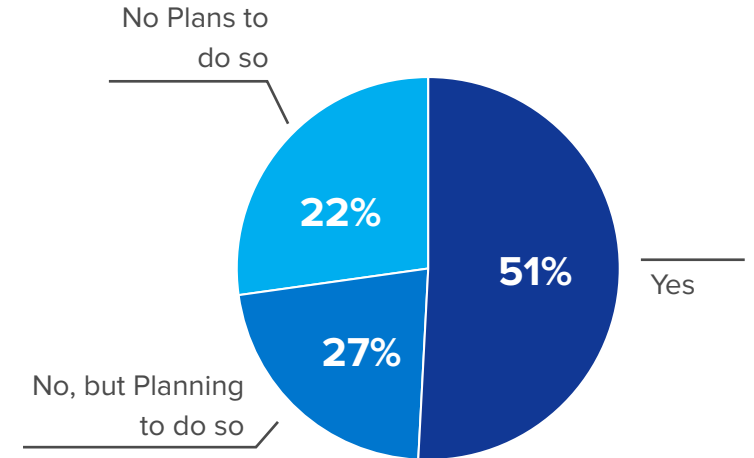
SMBS ARE EXPANDING ONLINE SALES CHANNELS TO HELP MAKE UP FOR LOST BUSINESS

Half of all SMBs are ramping up online sales to try to replace some of the business they're losing from their traditional in-store or office operations.

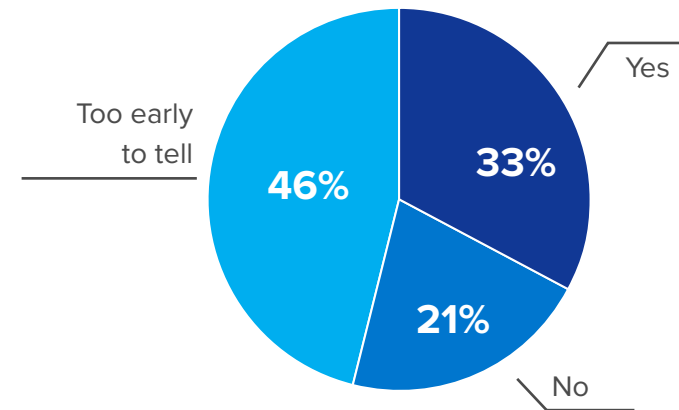
On the brighter side, about one-third of all SMBs say that these initiatives are already paying off. However, more people are losing their jobs and more businesses are reducing operations; therefore, it remains to be seen whether digital sales will really serve as a cushion for most companies as increasing numbers of laid-off workers and cash-strapped businesses tighten their purse strings.

In addition, very small businesses are much less likely to be getting a boost from these efforts than larger SMBs. Just 37% of companies with fewer than 20 employees have expanded digital sales activities, and only 22% report that these activities are paying off.

Even if they would like to expand digital sales channels, many of these very small businesses lack the resources and expertise necessary to do so in an effective way.



Are you currently increasing the use of online and digital sales channels, marketplaces, websites, etc., for your goods and services, or do you plan to do so?



Has your increased use of online channels resulted in more sales through these channels?

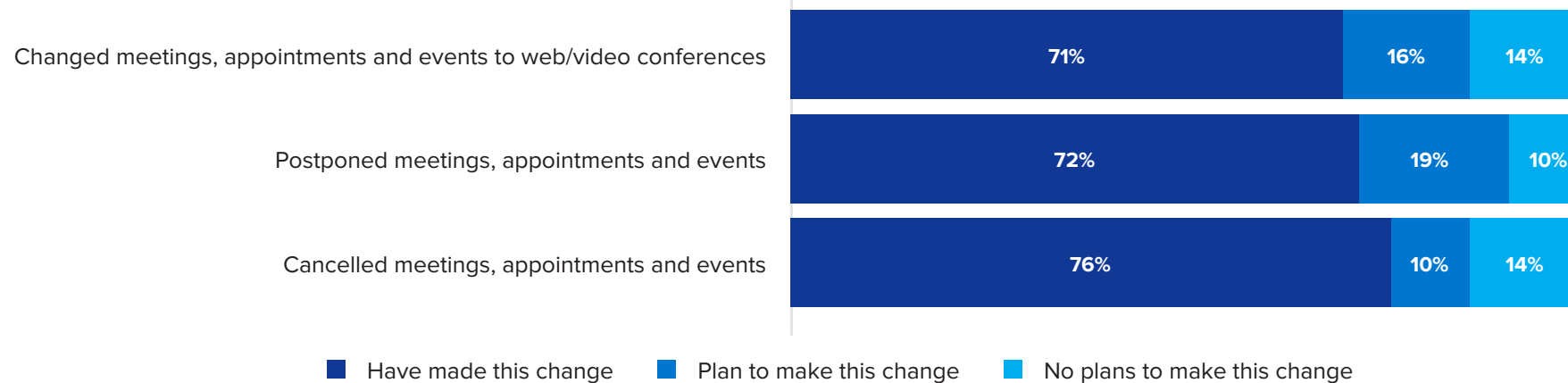
SMBS MOVE SWIFTLY TO CANCEL, POSTPONE OR MOVE EVENTS AND MEETINGS ONLINE

Physical-world meetings, events and appointments have all but disappeared. 71% of SMBs have already moved these activities from the physical world to the virtual one, and 16% are planning to.

But many activities can't be easily, quickly or productively conducted online. After all, you can't really cut someone's hair, fix someone's clogged drain or clean someone's teeth in a video conference.

As a result, 72% of SMBs have postponed and 76% have entirely cancelled events, appointments and meetings in the wake of the pandemic.

Businesses in industries such as personal services, hospitality, home repair, construction, medical and dental practices, and others who rely on physical-world activities to generate revenues will find it very difficult to recoup most of their lost income.



Have you made any changes or do you plan to make any changes in how you conduct face-to-face (in-person) customer, supplier, partner or influencer events, appointments and meetings due to the COVID-19 virus?

Note: Totals may not equal 100% due to rounding.

SMBS DOUBLE DOWN ON TELECOMMUTING

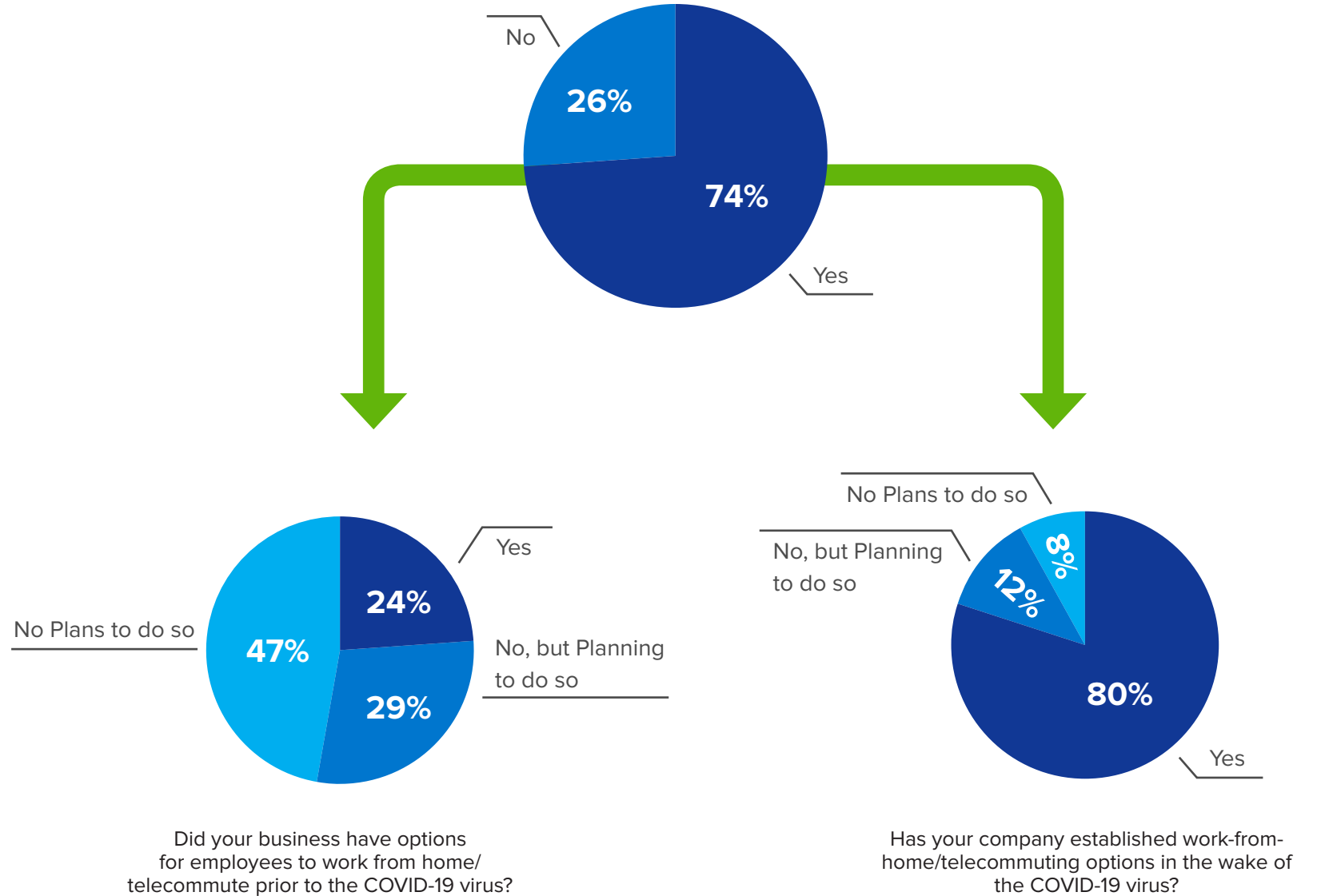
Businesses that can do so are relying heavily on telecommuting to keep their operations going.

About three-quarters of SMBs say they had options in place for employees to work from home prior to the COVID-19 outbreak. In *SMB Group's 2019 SMB 360: Connecting the Dots Between Business and Technology Study*, we found a similar percentage of SMBs with telecommuting options. But in that survey, we also found that in the majority of companies, only a small percentage (1% to 10%) of workers were working remotely on a regular basis.

Due to new stay-at-home guidelines and mandates, however, 80% of SMBs with existing work-from-home programs are now expanding them as they try to keep their businesses going.

Meanwhile, among SMBs that lacked telecommuting options prior to COVID-19, 24% have now established them, and 29% plan to do so.

Although there are bound to be fits and starts as companies adapt, we believe that this shift will be a permanent one for many companies and employees.



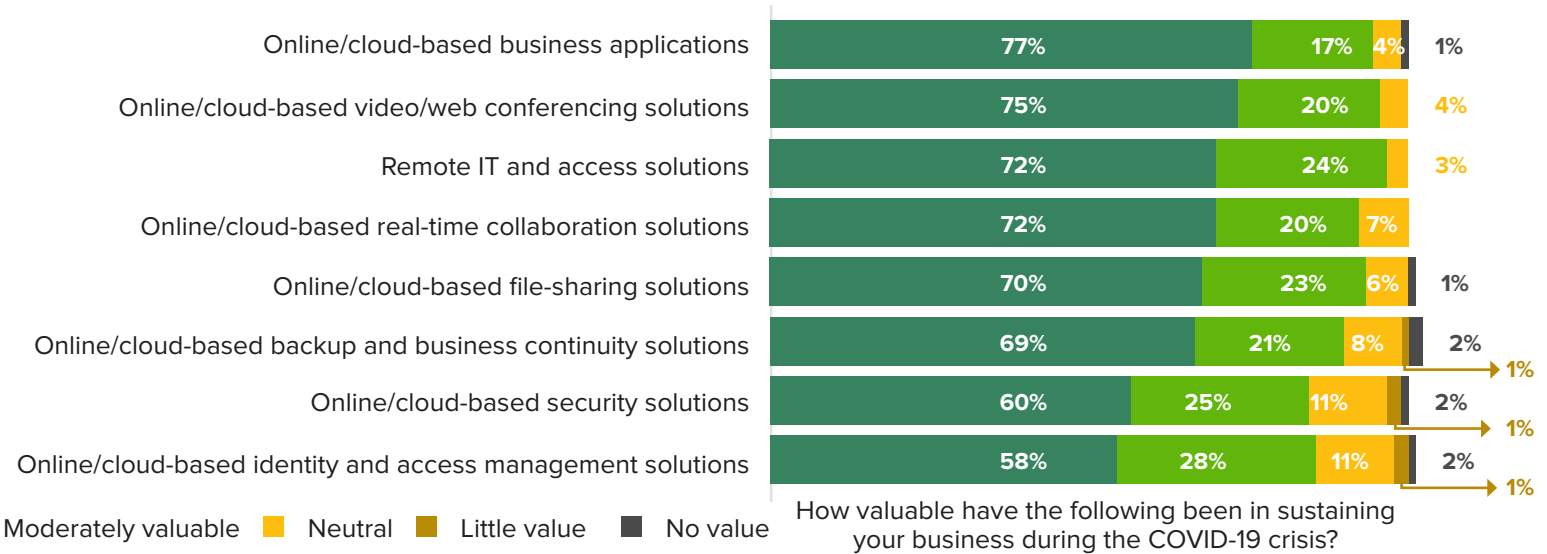
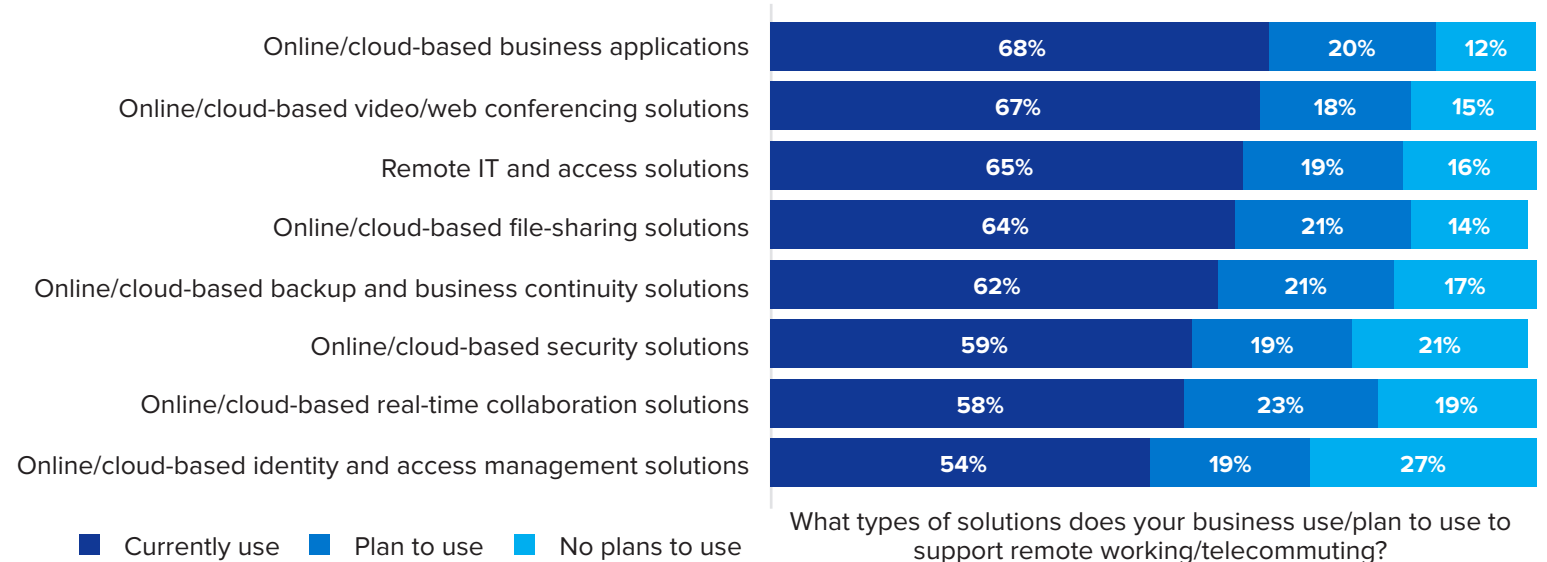
ONLINE SOLUTIONS PLAY A KEY ROLE IN SUSTAINING SMB OPERATIONS

If there's a silver lining in this crisis, it's that online solutions are enabling many knowledge workers to work from home.

Fortunately, the majority of SMBs were already using many of the most necessary solutions prior to the pandemic—with many more putting them in place to cope now that it has hit.

As important, these solutions are serving as business lifelines for SMBs, with a majority rating them as extremely valuable in helping them to sustain their companies during the COVID-19 crisis.

SMBs rate online cloud-based business applications, web/video conferencing solutions, remote IT and access solutions, and real-time collaboration as providing the most value in helping them to weather the storm.



Note: Totals may not equal 100% due to rounding.

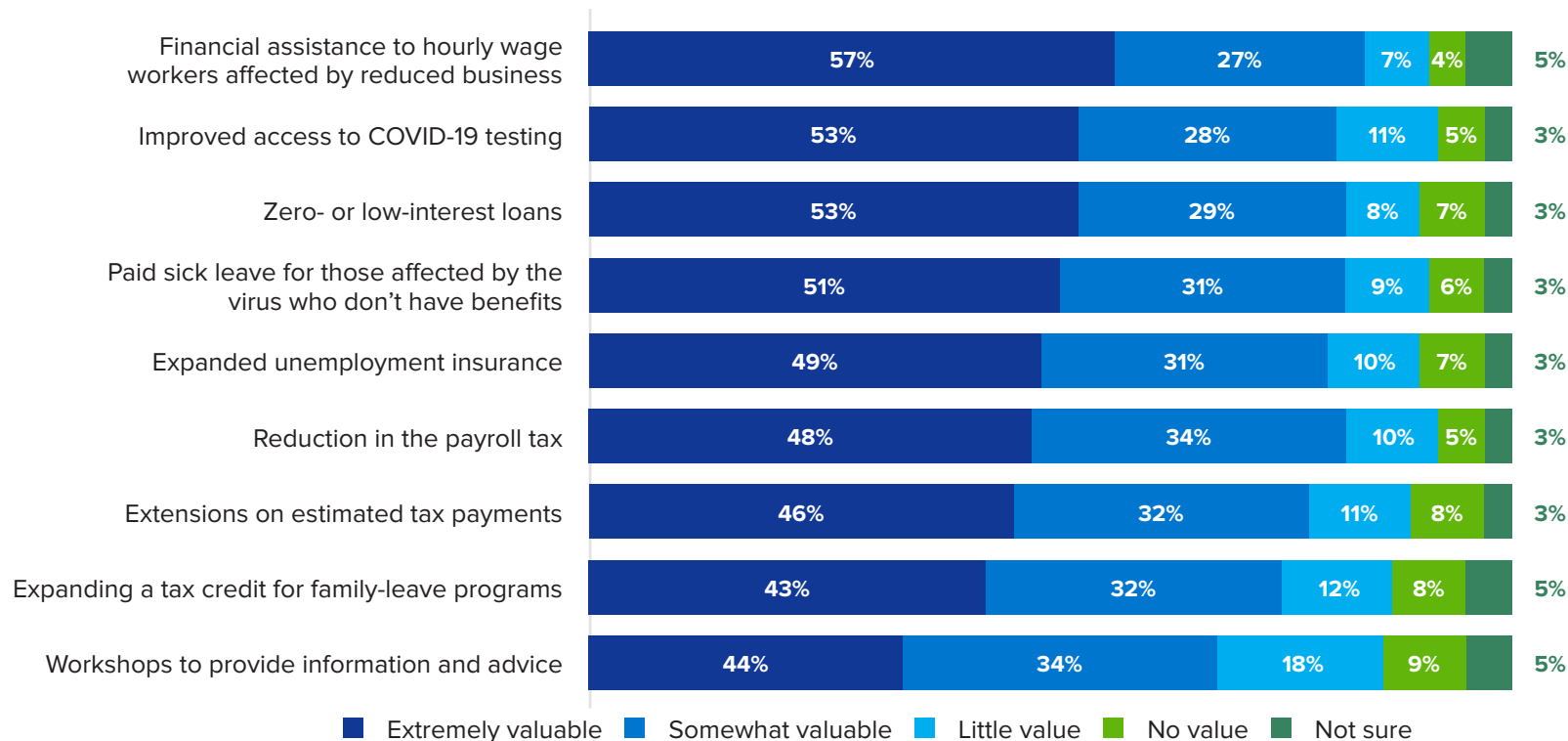
GOVERNMENT PROGRAMS OFFER SMBS SOME HOPE TO BRIDGE THE GAP

Legislation was still pending during most of the period when this survey was fielded, but we wanted to get a better sense of how valuable different types of assistance would be for SMBs.

The vast majority of SMBs think that all of the programs we asked about would help them and their employees navigate through this crisis. Financial assistance to hourly wage workers, improved access to COVID-19 testing and zero- or low-interest loans were most likely to be viewed as extremely valuable.

Since we fielded the survey, Congress passed and the president signed the \$2 trillion [Coronavirus Aid, Relief, and Economic Security \(CARES\) Act](#) into law. In addition to providing cash payments to individuals, expanding unemployment coverage, and funding \$425 billion in loans for corporations, the Act provides \$377 billion in new loans, loan forgiveness and grants to small businesses.

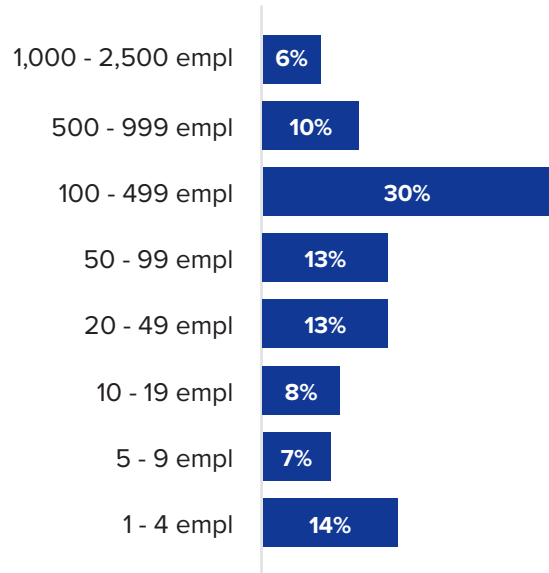
This capital infusion will slow down some closures and help some SMBs to stay open or resume business once the crisis subsides. But judging from the depth and breadth of our findings, many SMBs—especially smaller ones—will need additional cash infusions to survive over the long haul.



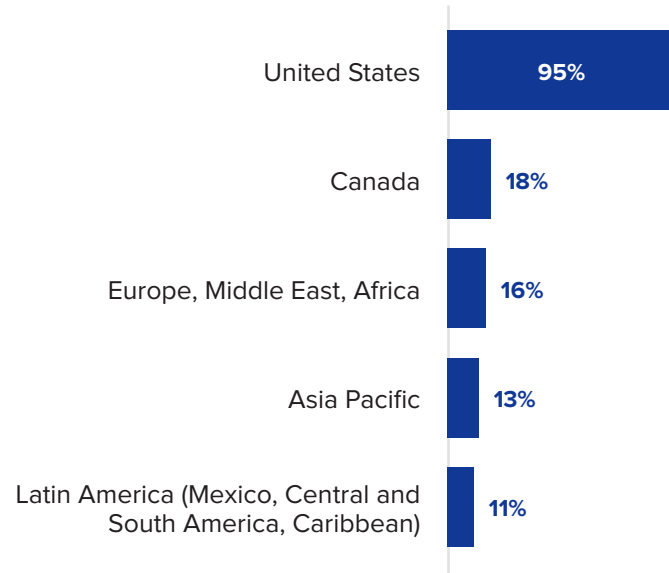
How valuable do you think the following government programs could be in helping small and medium businesses and employees successfully weather the COVID-19 virus?

ABOUT THE STUDY

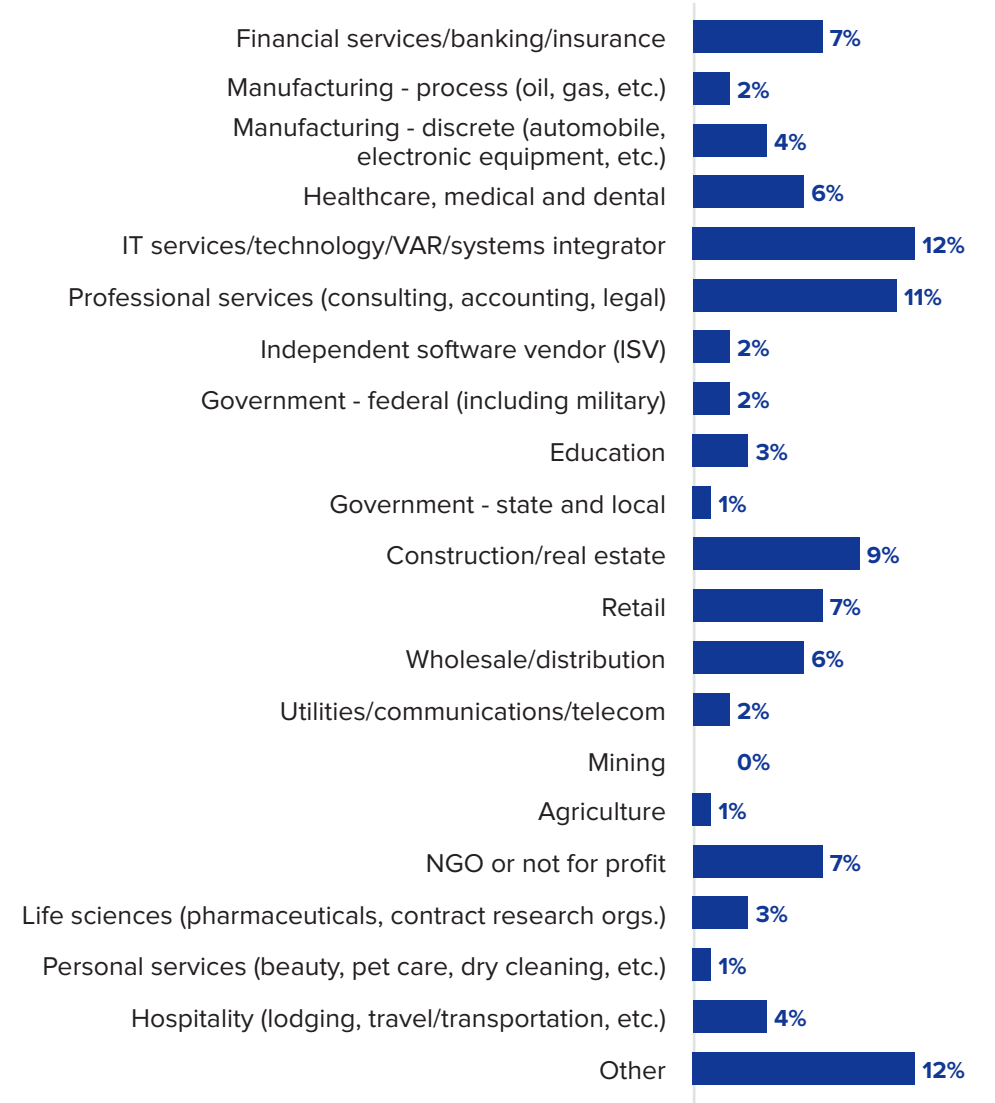
Unless otherwise noted, this research is based on a survey of SMBs (1 to 1,000 employees) conducted between March 23 and March 30, 2020. 503 business decision makers and influencers completed the survey.



How many full-time employees, including yourself, does your company employ in total (not including external contractors)?



In which geographic regions does your company conduct business?



In which industry does your company operate?



ABOUT SMB GROUP

SMB Group is a research, analysis and consulting firm focused on technology adoption and trends in the small and medium business (SMB) market. Founded in 2009, SMB Group helps clients to understand and segment the SMB market, identify and act on trends and opportunities, develop more compelling messaging, and more effectively serve SMB customers.

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