

# How Can SME Turn Crises into Opportunities under the Epidemic

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## ABSTRACT

At the end of 2019, the sudden outbreak of COVID-19 has brought an inevitable impact on the sustainable management of SME. Many SME are facing the risk of bankruptcy. How to survive the epidemic, and even go against the trend to achieve growth, has become the focus of attention of all walks of life. Based on this, this paper discusses the problems and pressures faced by SME under the epidemic situation, and puts forward that the government should support enterprises to resume work and stabilize employment, continue to optimize public services, rationally use fiscal and taxation policies, and guide enterprises to transform into digitalization. Enterprises need to give priority to epidemic prevention and use, make good use of preferential policies, improve their credit level, make good use of Internet technology, and speed up the transformation and upgrading of enterprises. It is hoped that these suggestions can give some enlightenment and reference to SME and promote the healthy development of SME in China.

**Keywords:** new crown pneumonia epidemic, SME, countermeasure

## 1. INTRODUCTION

At the beginning of 2020, the spread of COVID-19 has caused the world economic development to press the “pause key”, which brought great challenges to global economic growth. The outbreak of the epidemic has had a huge impact on China’s economy [1-2]. According to data released by the National Bureau of Statistics of China, in the first quarter of 2020, GDP decreased by 6.8%, the output value of industrial enterprises above designated size decreased by 13.5%, the national service industry production index decreased by 13.0%, and the total retail sales of consumer goods decreased year on year. The year-on-year decline was 20.5%, and national investment in fixed assets decreased by 24.5%. After the efforts in recent months, the spread of the epidemic in China has been controlled [3]. However, this epidemic is still raging all over the world. On March 11th, the World Health Organization announced that the COVID-19 has entered a “global pandemic”. The economies of various countries are also affected by the epidemic, and production and consumption, international trade and supply chains are restrained to varying degrees. International organizations or investment banking institutions have lowered their forecasts for the global and some countries’ economic growth rates in 2020. The World Bank predicts that the global economy will decline by 5.2% in 2020, of which the economies of America, Europe and Japan will decline by 6.1%, 9.1% and 6.1% respectively. The International Monetary Fund predicts that the global economy would decline by 3%. Faced with the impact of the epidemic, a large number of SMEs have encountered outstanding problems such as difficulties in resuming production or

working, high cash flow pressure and some of them are even on the verge of bankruptcy. The COVID-19 epidemic has had a significant negative impact on the survival and development of global SME. But for countries all over the world, SME is an enterprise group with the largest number, the most active innovation and the strongest ability to promote employment [4-5]. According to the data of the World Bank, SME accounts for more than 90% of the total number of global enterprises and more than 50% of the global employed population. There are more than 30 million small businesses in the United States, which is the most dynamic part of the American economy. There are 25 million SME in Europe, which are called the “backbone” and pillar of the European economy. The number of SME in China has exceeded 40 million, contributing more than 50% of tax revenue, more than 60% of GDP, more than 70% of technological innovation achievements, and more than 80% of labor force employment. During the period of COVID-19, the normalization of future prevention and control, promoting SME to use this major challenge to turn crises into opportunities, achieving sustainable and healthy development in the future, which has important practical significance for fully releasing our country’s economic development potential and strong momentum.

## 2. SME IS FACING DIFFICULTIES DUE TO THE INFLUENCE OF COVID-19

### 2.1. Bad Supply Chain Connection

The COVID-19 increased the risk of global industrial chain interruption, caused turbulence in foreign trade

environment, and seriously affected economic activities such as production and circulation, production capacity cooperation, labor mobility and foreign investments. The uncertainty of the real economy and manufacturing industry, especially the supply chain of SME, is outstanding. The production and operation pressure of SME will affect other SME in the supply chain, which will lead to a sharp increase in the operation pressure of the whole supply chain and aggravate the risk of supply chain rupture.

## ***2.2. The Domestic Consumer Market is Shrinking***

In the late period of the epidemic, the market demand in most areas of China gradually improved, the production and operation in all walks of life gradually became normal, and most SME resumed production and operation. Due to the time lag between consumer confidence and consumption inertia, as well as the continuous epidemic prevention measures in some areas, it will take some time to return to the pre-epidemic state, and the overall demand of the domestic consumer market is still in a downturn [6]. According to the data of the National Bureau of Statistics in the first quarter of 2020, the total retail sales of social consumer goods, retail sales revenue and catering industry revenue decreased by 19.0%, 15.8% and 44.3% respectively year-on-year. Thus, the catering industry has been seriously affected by the epidemic. With the continuous spread of the epidemic, economic and trade activities have greatly decreased, various exhibitions and business meetings have been postponed or cancelled.

## ***2.3. Business Income Plummeted and It is Difficult to Return to Work***

In 2020, due to the severe impact of the epidemic, the operating income of SME has dropped sharply, and the actual operating difficulties will continue to increase, further increasing the risk of enterprise failure. The survey results in Beijing show that the epidemic has a great impact on SME, and it is still difficult for enterprises to operate, with most enterprises' orders falling month-on-month [7-8]. Among the surveyed enterprises, 65.4% were in a loss state. Among them, 81.5% of start-ups are in a state of loss within 3 years. In May, 25.6% of the enterprises achieved the same profit as last year, with the total proportion of enterprises whose profit declined year on year reaching 67.5%, while only 6.5% of enterprises whose profit increased year on year. Among them, 77.7% of the profits of start-ups that have been operating for 3 years or less decreased year on year. The business model of SME is too traditional and unitary, and the proportion of working capital is high, which makes the operating cost of SME relying on physical production and offline sales operation greatly increase, and the risk of capital chains breakage greatly increases. Delays in returning to work,

production and post, untimely supply of raw materials and untimely delivery of finished products will all lead to high operating costs of SME.

## ***2.4. Logistics is Blocked, and Short-term Operating Costs Rise***

Due to the insufficient circulation of production factors, some industrial chains have broken, social resources are concentrated on epidemic prevention, and the labor, raw materials and logistics costs of SME generally risen. Even if enterprises have resumed work in an all-round way, the production cost per unit product is still very high in the condition of insufficient production capacity. Compared with large state-owned enterprises, SME in the initial stage is weak in liquidity supply, risk resistance, emergency management and enterprise innovation. The short-term imbalance between income and expenditure may lead to a break in the company's capital chain. China's large enterprises take the lead in resuming production and operation while returning to work in an orderly manner, but it is difficult for labor-intensive SME to do so, and it is difficult to make up for the losses of enterprises' sustainable operation due to weak market demand.

## ***2.5. The Risk of Banks Cutting off Loans and Lending Debts is High***

Since 2018, the domestic economy has shown a cyclical downward trend. In the future, SME will face problems such as blocked capital flow, financing difficulties, and rising operating costs. Since the epidemic spread, the operating costs of SME have risen sharply, their operating income has decreased, and even many enterprises have "zero income". In this case, the state has issued relevant policies urgently to help enterprises tide over difficulties and stabilize social and economic development.

## **3. GOVERNMENTS AND ENTERPRISES HELP SME TIDE OVER DIFFICULTIES IN TWO DIRECTIONS**

The CPC Central Committee, the State Council and local governments pay close attention to the losses caused by the epidemic situation in SME, and quickly formulate emergency plans for resuming work and production according to local conditions. With the continuous spread of foreign epidemics, the downward pressure on the global economy is increasing, and the domestic economic situation is not optimistic. There are many uncertain and unstable factors in the economy. The follow-up production and operation of enterprises will face new risks. Therefore, based on the government level and enterprise level, this paper puts forward the following suggestions.

### **3.1. At the Government Level**

#### **3.1.1. Support Enterprises to Return to Work, and Stabilize Job Position**

Safeguarding employment is to safeguard people's livelihood. The following measures can be taken to minimize the negative impact of the epidemic on the return of enterprises, helping SME meet the demand for returning to work. Firstly, straighten out the docking mechanism of enterprise labor supply and demand. Guide enterprises to make good use of all kinds of talent information supply and demand docking platforms to promote online supply and demand docking and remote recruitment. Secondly, prompt rework personnel to arrive at work in time. To work out the scheme of organizing employees to return to work, we can monitor the health of employees by using the information-based "travel permit" and "health code", helping enterprises prevent and control the epidemic situation of employees returning to work. Thirdly, support enterprises to conduct on-the-job training.

#### **3.1.2. Continuously Optimized Public Services**

In order to help enterprises cope with the negative impact brought by the epidemic, public service organizations should be guided to provide services such as enterprise policy declaration and legal aid, so as to help enterprises solve problems and achieve the effect of "external force relieving internal difficulties". The following measures can be taken. One is to establish a coordinated implementation mechanism [9-10]. Strengthen the coordination and implementation of policies, take measures such as "enterprise housekeeper", "liaison officer for resuming work and resuming production" and "enterprise service package", in-depth understanding of enterprises through visitation, actively provide services to enterprises, help enterprises go through the formalities for resuming work and resuming production, and ensure employment, raw materials, capital and other factors. Secondly, provide professional online services to enterprises. By setting up columns and other forms, we will sort out all kinds of policies to support enterprises in time and provide special services such as policy consultation and interpretation for SME. To provide low-cost telecommunication, video conferencing, online testing, online sales and other service products for SME. Thirdly, guide social forces to serve SME. Encourage and guide industry associations and chambers of commerce to prepare policy guidelines for resuming work and resuming production, setting up an online policy consultation platform to help guiding the enterprises to understand and make good use of various preferential policies.

#### **3.1.3. Reasonable Application of Fiscal and Tax Policies**

Firstly, is to stabilize our strength; in order to stabilize the economy and boost market confidence, in the short term, we need to continue to play the positive role of financial subsidies and preferential tax policies, maintain the "counter-cyclical" adjustment, help produce epidemic prevention materials, and provide a solid guarantee for the final victory of epidemic prevention. Secondly is to pursue accuracy; fiscal and tax policies should be formulated accurately while maintaining their strength in the short term, pay continuous attention to the optimization of industrial structure, focus on promoting high-quality development and encouraging scientific and technological innovation, treat large state-owned enterprises and SME equally, and adopt comprehensive fiscal and tax policies to stimulate the endogenous kinetic energy of market players, form new impetus and promote economic growth and healthy development. Thirdly, talk about effectiveness; fiscal and tax policies should further improve the policy system, explore comprehensive policy mix, and take into account both short-term effectiveness and long-term effectiveness.

#### **3.1.4. Guide the Digital Transformation of Enterprises.**

At present, the digital transformation of SME must be taken into account. The following measures can be taken to solve some problems. Firstly, carry out the digital transformation partnership action, strengthen the construction of public service capabilities such as regional, industrial and enterprise-type digital transformation promotion centers, lower the threshold of transformation, and solve the problem that SME has insufficient transformation capabilities and "will not turn". Secondly, the implementation of "using data to enrich intelligence", which focuses on exploring and implementing inclusive cloud service support policies, "using data" focuses on promoting the integration and application of big data at a deeper level, and "enriching intelligence" is to increase support for intelligent transformation of enterprises, especially to promote the deep integration of artificial intelligence and the real economy, and solve the problem that the transformation cost of SME is too high and "cannot be turned". Thirdly, cultivate new formats of digital economy, explore the creation of "virtual industrial parks" and "virtual industrial clusters" across physical boundaries, support the construction of digital supply chains, and drive upstream and downstream enterprises to accelerate digital transformation. Support Internet enterprises and share economic platforms to establish "shared employment platform" and "employment guarantee platform", etc., Give full play to the synergy benefits among enterprises, and create a new ecology for the transformation of traditional industrial service. In order

to solve this problem, SME “dare not turn” after a long and painful transition.

### **3.2. At the Firm Level**

#### **3.2.1. Epidemic Prevention Work is the Main Task**

First of all, SME should set up an “enterprise response leading group” led by the chairman or general manager as soon as possible, formulate policies and measures to deal with the epidemic, implement resources, and supervise the implementation in place to ensure the health of the owners and employees of SME. Secondly, in terms of production and operation, try to widen the distance between people in the workplace to avoid cross-infection, or consider using space to gain time, such as working in two shifts, so that employees can work at different times and minimize interaction. If you can communicate with your cellphone and walkie-talkies, don’t communicate face to face. After all, the health of all employees is an enterprise’s greatest wealth. Thirdly, the managers of SME should try their best to appease their employees properly, build consensus, overcome the difficulties together and avoid organizational slackness. It is necessary to see the risks, find positive values and seek a correct way out from the plague.

#### **3.2.2. Make Good Use of Living Preferential Policies**

At present, local governments have issued a series of policies to help SME tide over the difficulties, such as tax reduction and exemption, extending the debt maturity and providing emergency funds, and a series of preferential policies during the epidemic period, such as bank credit and social security fund. Therefore, enterprises should make full use of the local government’s policies to support SME, or appoint special personnel to study government policies, so as to ensure that the policies are well utilized, and these preferential measures are utilized to the maximum extent, so as to ensure that they can safely pass this critical period.

#### **3.2.3. Improve Corporate Credit Level**

Due to the low credit of SME in China, after the outbreak of COVID-19, SME in urgent need of capital turnover will face a huge financial crisis. Insufficient financing capacity of SME will seriously affect the breakthrough of COVID-19 blockade. Therefore, SME should consciously set up a good credit image and strengthen cooperation with public relations companies, that is, do a good job in crisis public relations, so as to improve the credit level of enterprises. In addition, it is necessary to keep effective communication with financial institutions and non-

financial institutions, and broaden financing channels. SME with improved credit levels have the opportunity to successfully survive the financial crisis and have the ability to successfully overcome the epidemic.

#### **3.2.4. Make Good Use of Internet Technology**

During the SARS period in 2003, e-commerce companies represented by Alibaba took advantage of the situation to establish the market. Not only did they increase their membership, they also allowed a large number of enterprises to negotiate with customers through Alibaba. Alibaba not only developed itself, but also brought business opportunities to other companies in the time of crisis. Today, the twin brother of SARS is infected with a new coronavirus. Under this grim situation, Internet companies have not been greatly affected, and they have helped the country fight against COVID-19 to various degrees. For example, Baidu uses AI technology, and the tripartite fusion of big data and information flow to provide map tracking and big data reporting, while Alibaba introduces intelligent robots to make up for the shortage of human resources. Obviously, the outbreak of the epidemic once again proved to SME the importance of using Internet technology to develop the economy, and brought some experiences that are worth for consideration as reference to SME, that is, enterprises are quicker to promote intelligence and digitalization. Therefore, the epidemic has forced China’s SME to speed up the transformation and actively embraced the Internet and wisdom of technology.

#### **3.2.5. Accelerate Enterprise Transformation and Upgrading**

In the long run, while following the green and sustainable development, enterprises should accelerate the pace of industrial transformation and upgrading, give priority to low-capital and efficient operation mode, speed up liquidity operation, and fundamentally improve the ability to cope with emergencies. Enterprises should sum up various problems such as weak anti-risk ability and low intelligence level. And disordered industrial structure exposed during the epidemic period, focusing on solving them; determine the development goals of green industries, and plan production, wholesale and retail; accurate positioning of industrial chain standards at home and abroad will lay a solid foundation for the reconstruction of the industrial chain of enterprises. Through this epidemic, enterprises should take advantage of the gap to actively promote the reshaping of the industrial chain, realize the transformation and upgrading of the industrial structure of enterprises, pay close attention to the development trend of the epidemic at home and abroad in real time, and seek to improve the industrial development level of China on a global scale.

#### 4. SUMMARY

In short, the COVID-19 has affected the development of SME to some extent, but the fundamentals of China's long-term economic improvement have not changed. The impact of the epidemic is short-term, and can be generally controlled. Through the efforts of the government and enterprises themselves, SME will certainly be able to tide over the difficulties. Moreover, through the temper of this epidemic, the historical process of SME's transformation and upgrading to high quality development will be further accelerated.

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