



## COVID-19 RESPONSE

# IMPACT OF COVID-19 ON THE SMALL BUSINESS SECTOR

Learn about impacts to small businesses due to the COVID-19 virus.

With each passing day since the onset of the COVID-19 pandemic, the far-reaching economic implications on businesses are becoming increasingly apparent. According to the Small Business Administration (SBA)<sup>1</sup>, there are 30.7 million small businesses in the U.S., with more than 381,000 establishments existing in Oklahoma.

In Oklahoma, the COVID-19 pandemic has caused drastic economic disruptions in the small business sector as a result of complying with the government directives of temporary closure, social distancing and change of operations to minimize the risk of spreading the virus. Many of the negatively affected businesses are local, independent enterprises like barber shops, hair salons, coffee shops, art galleries, corner stores, restaurants and others that provide hands-on service. For a lot of these businesses, the ability to adapt to new systems of operation is limited due to an inadequate establishment or because their services can't be fully available online. Some professional businesses like banking, finance and real estate seem to have experienced less impact compared to the aforementioned businesses. Public works and infrastructure construction, as with other businesses deemed essential, have likewise experienced less impact relative to most small, independent operations previously mentioned.

To understand the impact of the pandemic on small business in Oklahoma, observations on two main areas are highlighted in regard to both short- and long-term implications. The two areas are cash flow stress and marketing/customer behavior.

### CASH FLOW STRESS

The closure and/or modification of operations for some businesses has meant generating zero sales or reduced revenue as much as 90% for those operating partially. Loss of revenue has forced some business owners to reduce hours of work for employees or lay off employees, and pursue modified payment of bills and notes payable. The disruption has further complicated the cash flow situation for small business owners who ordinarily have limited financial resources to absorb revenue losses and continue with regular operations.

A study by J.P. Morgan Chase Institute<sup>2</sup> on business accounts reported that small businesses lack the financial reserves to survive a month-long disruption. The severity of the economic disruption and immediate demand for financial assistance by small business owners is demon-

## CONTACT

▶ **James Arati**  
Business Development  
Extension Specialist  
jarati@okstate.edu  
405-321-4774

strated by the overwhelming number of applications for the two main COVID-19 related small business loan programs under the Coronavirus Aid, Relief and Economic Stimulus (CARES) Act. The loan programs are the Economic Injury Disaster Loan (EIDL) and the Paycheck Protection Program (PPP).

**Table 1. COVID-19 Disaster Relief funds for Oklahoma small businesses.**

<i>Program type</i>	<i>Applications Approved</i>	<i>Dollars</i>
EIDL advance	34,063	\$107,229,000
EIDL	4,634	\$384,538,244
PPP	61,412	\$5,414,559,493

Source: Compiled from US. Treasury and SBA funding reports as of May 16th, 2020 – PPP and May 17th 2020 – EIDL

The number of approved loan applications and the dollar amount for each program is shown in Table 1. The high rate of borrowing indicates that many businesses are needing cash to navigate the pandemic crisis and remain operational. Not all loan applications are approved for funding, therefore leaving the applicants without cash, a situation which may lead them to permanently close the business and file for bankruptcy.

## MARKETING AND CUSTOMER BEHAVIOR

The statewide closure of non-essential services, stay home orders and social distancing restrictions have disrupted the way businesses market and sell products and services to their customers. The pandemic has caused inevitable changes on buyer behavior and everyday practices, forcing businesses to adapt accordingly in serving their customer needs.

Businesses like restaurants, grocery stores and farmers markets had to adopt new practices like curbside pick-up, drive through, home door delivery and call-in order fulfillment.

To promote products and services in the customer space, some small businesses have leveraged digital media technology (e.g email, website, etc.), social media (e.g Facebook, Instagram, Pinterest, YouTube, etc.) and e-commerce platforms (e.g eBay, Etsy, etc.) as communications and marketing avenues for generating revenue.

For some businesses, they have adapted to provide personalized online events and homemade videos to promote delivery and distribution of products and services to customers.

The reality of adopting new copying strategies by business owners to market and promote their businesses to customers, points to a broad need for investing in online tools to keep selling during and after the crisis. Striving to make online tools that give customers a simplified and secure shopping experience could be a smart investment for businesses.

As the economy reopens and businesses resume operations, it is advisable for business owners to prioritize inspiring confidence and maintaining customer trust, demonstrating good health practices and continuing to be flexible to change.

The full impact of COVID-19 disruption on the economy and small businesses depends on how long the pandemic lasts. In the short term, the disruptions will likely continue to have adverse implications on small businesses leading some to permanent closure, reinvention or the start of new enterprises.

## References

- 1 U.S. Small Business Administration, Office of Advocacy
- 2 J.P. Morgan Chase Institute, 2016; Cash is King: Flows, Balances and Buffer Days.