

»» SMEs are responding creatively to the coronavirus crisis

No. 291, 2 June 2020

Author: Dr Volker Zimmermann, phone +49 69 7431-3725, volker.zimmermann@kfw.de

In response to the coronavirus crisis, 43% of small and medium-sized enterprises have modified their products and services, sales methods and business model. When combined with businesses that are still planning to do this, that share even rises to 57%. This remarkably high percentage is an expression of the high level of resourcefulness SMEs possess in navigating the crisis.

At the forefront are retailers, which have been hit by the crisis particularly hard, with 56% of them having already made adjustments. Small businesses with fewer than five employees, however, have also adjusted their offerings at a distinctly high rate of 42% – as compared with their normal innovation activity.

Companies that have already introduced innovations in the past have made adjustments in response to the coronavirus crisis at a particularly high rate of 57%. This underscores the fact that the ability to develop and successfully implement innovations also enables enterprises to swiftly respond to crisis situations, which makes innovators more crisis-resilient than non-innovators.

Enterprises make adjustments to their product and service offerings and business workflows as essential levers to stay up-to-date in a changing environment and ensure they remain successful in the future. This applies all the more in the current coronavirus crisis. Risk of contagion, government impositions, problems in supply chains and staff reductions have forced enterprises to accept significant restrictions to their normal business operation.

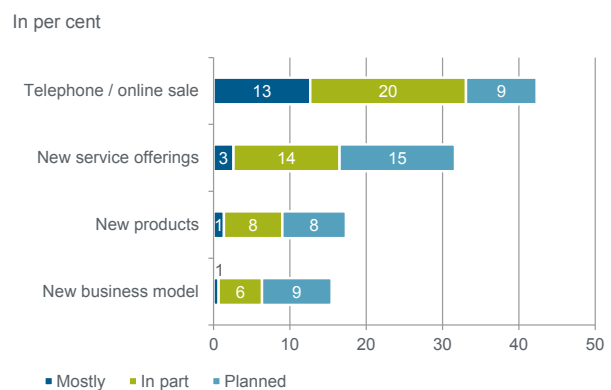
In a supplementary survey to the KfW SME Panel, KfW Research has interviewed SMEs on their supply-side response to the crisis (see box for methodology). Specifically, it asked whether and to what extent they have adapted their product or service offerings, or switched to telephone or online sales, and whether they perceive these and any other adjustments they made as a modification of their business model.

This survey has captured a broad range of crisis adaptations. They range from minor adjustments to the assortment or range of services and changes that do not necessarily have to continue after the crisis has subsided (e.g. production of protective screens instead of trade fair booths, retail delivery services, production of facemasks and gowns instead of garments, sanitisers instead of spirits) to far-reaching and technology-based developments that are classified as innovations according to the OECD definition¹ (e.g. development and production of 3-D printed ventilators).

SMEs responded to coronavirus crisis mainly by changing their sales methods and offering new services

Most small and medium-size enterprises have responded to the coronavirus crisis by redirecting their sales to telephone or online channels. Extrapolated to all SMEs, 13% of companies migrated most of their sales, a further 20% switched at least in part and 9% were still planning to adapt their sales accordingly at the time of the survey (Figure 1).

Figure 1: Type and extent of adjustments made in response to the coronavirus crisis

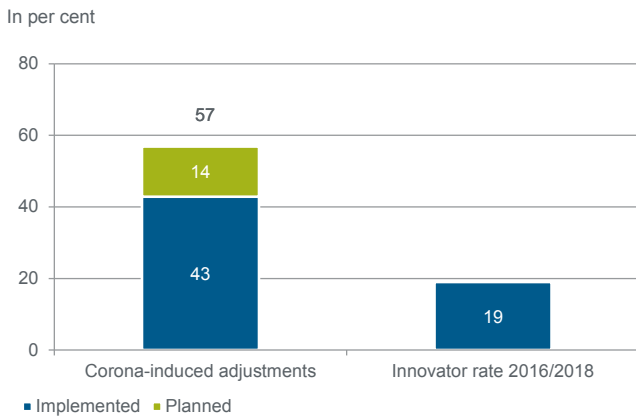


Source: KfW SME Panel, own calculations

Adjustments to services ranked second, as 3% of SMEs reported shifting most of their offering to new services, while 14% responded having switched some of their business to new services. The percentage of companies still planning this shift is highest, at 15%. The high level of adjustments to sales modalities and services offered is likely due to the fact that such modifications can be made relatively fast and without having to make changes to their machine fleet. Therefore, minor changes to the service offering in particular should be viable relatively quickly. In contrast, only 9% of enterprises have shifted at least in part to launching new product offerings in the wake of the coronavirus crisis. A further 8% are still planning to make such adjustment.

SMEs rarely tend to consider these (and other) changes to mean a shift to a new business model. Only 7% of businesses regard at least part of the adjustments made in the course of the coronavirus crisis as a modification to their business model. A mere 1% of SMEs reported changes to their business model without at the same time mentioning modifications to the products or services offered or to their sales process.

Figure 2: Coronavirus-induced adjustments and share of innovative enterprises – a comparison



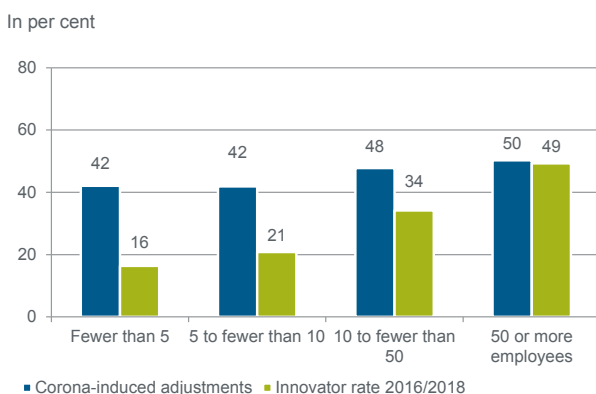
Source: KfW SME Panel, own calculations

Overall, 43% of enterprises have made at least one of the changes mentioned. Counting those businesses that have already planned (but not yet implemented) changes, 57% of small and medium-sized enterprises are making adjustments on the supply side in the course of the coronavirus crisis (Figure 2). That is a remarkably high percentage, especially in comparison with the proportion of SMEs that have introduced innovations (19%) according to the standard OECD definition (see box on methodology) in the period 2016–2018.²

Small businesses are also adjusting their sales and range of offerings

This high percentage is explained by the fact that small businesses in particular are making adjustments in response to the coronavirus crisis much more often than any innovations generated in previous years. In the group of enterprises with fewer than five employees, this percentage is 42%, which is 2.6 times higher than the rate of innovative enterprises (according to the OECD definition). The larger the enterprise, the higher the share of enterprises making adjustments in response to the coronavirus and the share of innovators. Among enterprises with 50 and more employees, both shares are nearly equal at 50 and 49% (Figure 3).

Figure 3: Shares of enterprises making coronavirus adjustments compared with the share of innovators by size



Source: KfW SME Panel, own calculations

Special coronavirus survey in the KfW SME Panel

The current analysis is based on a supplementary online survey conducted as part of the KfW SME Panel from 6 to 14 April 2020 to identify the current impacts of the coronavirus crisis. All enterprises that participate in the KfW SME Panel and had provided a valid email address were surveyed. As the supplementary survey was linked to the main database of the KfW SME Panel,³ these survey results can be extrapolated to the total population of SMEs. The crisis-induced, supply-side adjustments were identified based on the following question: ‘To what extent have you or your enterprise adjusted your offering as a consequence of the coronavirus crisis?’

Respondents could choose from the following reply categories:

- Switch to new products
- Switch to new services
- Switch to online/telephone sales
- Changes to business model.

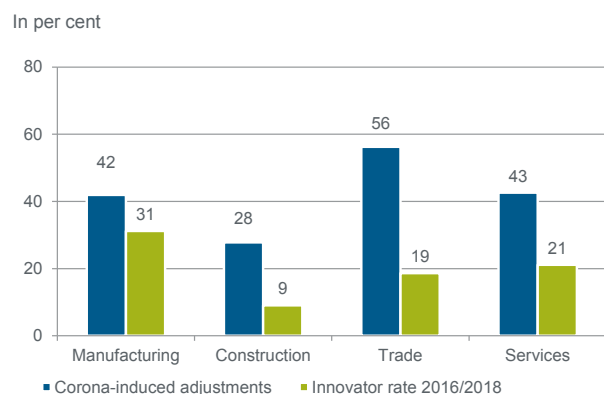
Possible answers were: ‘mostly’ / ‘in part’ / ‘planned’ / ‘not at all’.

This definition is broader than the innovation definition of the OECD in that it is not limited to ‘significant’ differences of the new or improved product or process compared with predecessor products, services and processes. The OECD definition also does not include business model innovations. The definition used here is narrower with respect to process innovations, which are not considered with the exception of modifications to sales.

Retail sector leads the way in coronavirus adjustments

Significant differences in coronavirus adjustments are also evident across economic sectors. Retail ranks first with 56% (Figure 4). Mandatory shop closures and declining global trade, which are reducing wholesale activity, make the retail industry one of the hardest-hit sectors. In the construction sector, however, which has been relatively unaffected, 28% of firms have made changes to product offerings or sales, the lowest percentage of all sectors.

Figure 4: Share of enterprises with coronavirus adjustments compared with the share of innovators by sector



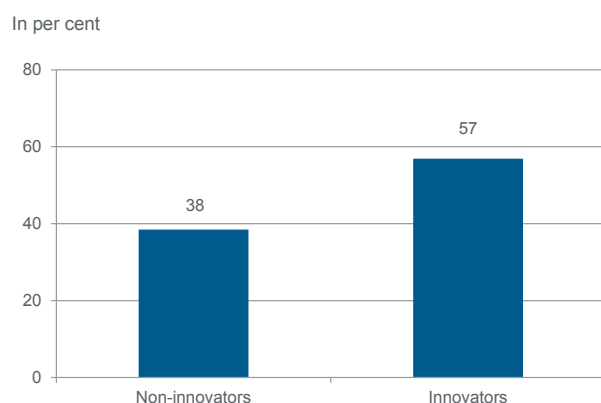
Source: KfW SME Panel, own calculations

For the construction and retail sectors, which are otherwise not very innovative, the high rate of coronavirus adjustments means that around three times as many enterprises have made adjustments as innovated during the period 2016–2018. In the manufacturing sector, which typically has a high rate of innovators, that share is only around one third higher.

Innovative SMEs also lead in coronavirus adjustments

A closer look at the respondents reveals that those enterprises that have innovated in the past, in particular, are also more likely to succeed during the coronavirus crisis in adjusting their business activities to the crisis situation. In enterprises that did not innovate during the period 2016–2018, the percentage of those that have made coronavirus adjustments is thus 38%. Among the enterprises that generated innovations during the same period, however, that share is 57%, around one and a half times as high (Figure 5). This finding underscores that the ability to adapt to new market situations quickly when necessary is business-specific and linked to the ability to innovate. The ability to innovate thus also makes businesses more resilient in acute crises.

Figure 5: Share of enterprises with coronavirus adjustments by past innovation activity



Source: KfW SME Panel, own calculations

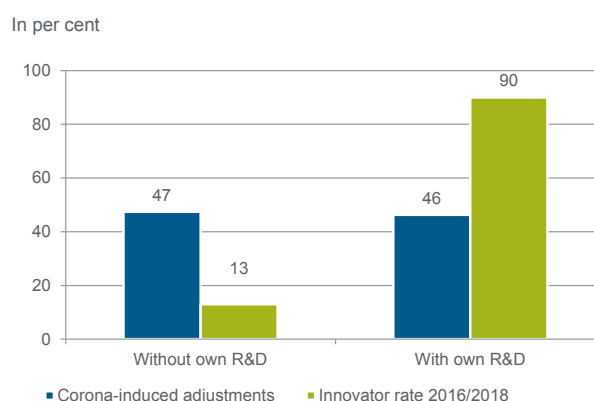
Own R&D is inconsequential for coronavirus adjustments

Finally, a look at the distinction into enterprises that conduct research and development (R&D) and those that do not helps to more accurately assess the characteristics of the coronavirus adjustments they make to their sales and product offerings. The share of those making adjustments is nearly equal for enterprises with and without R&D, at 46 and 47% respectively. In contrast, the share of innovators (according to OECD definition) in both groups is vastly different, at 13 and 90%.

Therefore, unlike for innovations as defined by the OECD, whether or not an enterprise conducts R&D has no effect on whether it has or has not made adjustments in response to the coronavirus crisis. This is a remarkable finding even considering that coronavirus adjustments are more likely to be changes to services offered and sales. It indicates that these adjustments are not the result of complex development processes but are often minor and temporary adjustments within

the enterprise.

Figure 6: Share of enterprises with coronavirus adjustments with and without R&D



Source: KfW SME Panel, own calculations

Conclusion

Many small and medium-sized enterprises are responding to the coronavirus crisis with new ideas. Overall, 43% of SMEs have modified their product/service offerings, sales processes or business model. Together with businesses that still plan to do this, that share even rises to 57%. Retailers, which have been hit by the crisis particularly hard, are leading the charge. Small businesses with fewer than five employees have also adjusted their offerings in a surprisingly high proportion – compared with their normal innovation activity.

A particularly high share of businesses that already introduced innovations in the past have made coronavirus adjustments. This highlights the fact that the ability to develop and successfully implement innovations also enables enterprises to swiftly respond to crisis situations. That ability also makes these enterprises more crisis-resilient.

However, the proportion of small and medium-sized enterprises that have made coronavirus adjustments does not differ whether or not they conduct own R&D. This, as well as the high proportion of enterprises with coronavirus adjustments as compared with the innovator rate, indicates that many of the adjustments made are of minor magnitude and, in part, only temporary.

Sign up for our free email newsletter and don't miss out on any KfW Research publications.

[Subscribe here](#)

¹ Cf. OECD/EUROSTAT (2005): Oslo Manual. Guidelines for Collecting and Interpreting Innovation Data. Third Edition. Changeover to the revised definition according to OECD/Eurostat (2018), Oslo Manual 2018: Guidelines for Collecting, Reporting and Using Data on Innovation, 4th Edition, The Measurement of Scientific, Technological and Innovation Activities, applied in the current survey wave.

² Cf. Zimmermann, V. (2020): **KfW SME Innovation Report 2019**. Innovator rate drops to 19%, KfW Research.

³ Cf. Schwartz, M. (2019): **KfW SME Panel 2019**. After a record year, dark clouds are gathering – businesses between all-time highs and recession fears, KfW Research.