

»» No way back: Many SMEs expect the coronavirus crisis to have a lasting impact on product demand

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The coronavirus pandemic and the resulting restrictions have dramatically changed our social lives and our patterns of consumption and behaviour. Some of these changes are likely to remain in place even after the end of the pandemic. The findings of a special survey conducted as part of the KfW SME Panel show that this will have a lasting impact on demand for products and services provided by small and medium-sized enterprises (SMEs) in Germany.

One finding is that around one in three small and medium-sized enterprises (31%) expect the changed consumer behaviour to continue to influence demand for the most important products or services they provide even after the end of the crisis. However, there are winners and losers, as was the case in past crises. Some 17% of SMEs expect demand to remain below pre-crisis levels in the long term. Indeed, in the group of enterprises most severely affected by the pandemic containment measures, half of all businesses are more pessimistic about the future. Around 14% of SMEs, by contrast, expect that they will benefit from the changes brought about by the crisis and that their products and services will be more sought-after in the post-pandemic period than before.

But at the same time, around four in ten SMEs do not expect the crisis to have any lingering effects. They expect demand for their products to stabilise around pre-crisis levels. Another 29% of SMEs have seen no effects of the crisis on demand for their products thus far.

The findings demonstrate that in the post-coronavirus world, a considerable number of SMEs will be positioned less favourably with their current range of products and services than before. That segment of the business sector will probably not be able to avoid undergoing a transformation process.

Crises as catalysts of change

Crises have always been considered to be drivers of change – not just at a whole-of-society level but also at the level of individual economic agents. The coronavirus crisis has the potential of going down in history as a ‘hyper-catalyst’ in a

wide range of different areas. After all, what makes it special is that the pandemic and the associated containment measures have changed people’s consumer behaviour and patterns of movement more strongly than may be typical in a ‘normal’ economic crisis. This can be felt in all areas of life. Numerous (economic) activities have migrated from the real to the virtual world as a result of the pandemic – whether it be home working, online shopping, digital trade fairs or internet gaming sessions with friends.

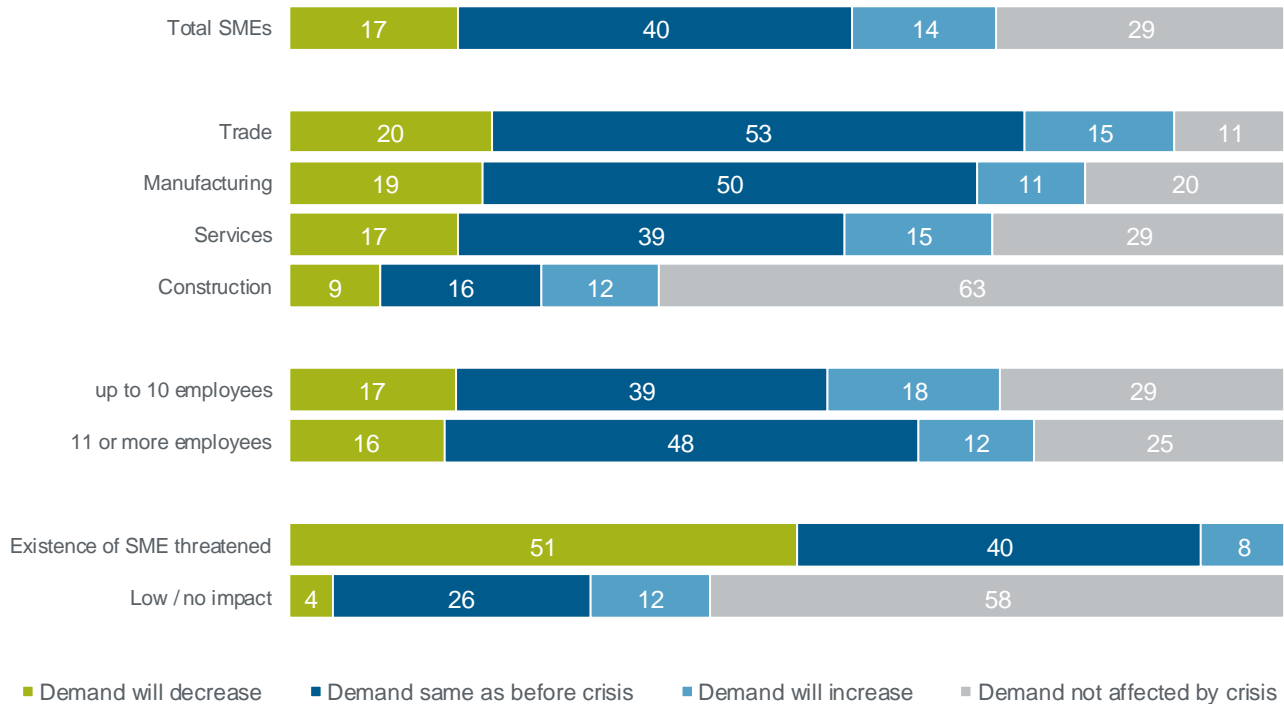
After the coronavirus: the ‘new normal’

With the drop in infection rates in the course of late spring and the successful rollout of the vaccination campaign, a number of coronavirus restrictions have already been eased in Germany. Nevertheless, it will probably take a long time for our day-to-day lives to completely return to normal. New virus variants have taught us that even high vaccination rates provide no protection from a renewed rise in incidence rates. What is also unclear is what the ‘new normal’ after the coronavirus pandemic will ultimately look like. After all, some of the changes brought about by the pandemic are so far-reaching that they will remain in place. For example, surveys show that many employees can no longer imagine returning to an exclusively office-based work routine after the pandemic. Working from home is here – and here to stay. Regular business trips could also be a thing of the past for many. Others, in turn, do not want to give up the food subscription boxes they have come to appreciate during the crisis. And others have discovered cycling as a genuine alternative to public transport.

These changes in consumer behaviour and patterns of movement are a challenge for small and medium-sized enterprises in Germany. Many are rightly asking themselves how sustainable the changes in habits are and how they will impact on future demand for their products and services. We therefore asked enterprises about their expectations regarding the post-coronavirus consumer world in a supplementary survey to the KfW SME Panel which was conducted in May of this year. The past has taught us that crises contain danger and opportunity, so they produce both winners and losers. Our survey findings confirm that the coronavirus crisis is no exception.

Figure: Expected long-term impact of the crisis on demand for SMEs' products

In per cent



Note: The question was: 'Do you expect the changed consumer behaviour to influence demand for the most important products or services your enterprise offers even after the end of the crisis?'

Source: fifth supplementary coronavirus survey to the KfW SME Panel.

Almost one in six SMEs expect lower demand for their products after the crisis

Some 17% of SMEs expect the crisis to have a lasting negative impact on demand for their main products or services (see figure). Around 650,000 businesses thus believe that they will no longer be positioned as well with their current range of products and services in the post-coronavirus world. This applies to retail and wholesale businesses in particular (20%). In the manufacturing sector, too, almost one in five SMEs (19%) are worried about future demand for their products. In general, however, the differences in negative expectations from one sector to another are rather minor. Only in the construction sector do noticeably fewer enterprises (around 9%) expect decreasing demand for their products. Deviations by enterprise size class are also few.

A comparison by degree of coronavirus crisis impact, on the other hand, demonstrates significantly larger differences in expectations. Enterprises that are at present much more affected by the restrictions, in particular, are also more likely to have a pessimistic outlook. Around one in two enterprises that saw their survival threatened by the crisis at the time of the survey expect decreased demand for their products after the crisis as well. That means half the enterprises that were hardest hit by the restrictions in the spring of this year expect these restrictions to have a lasting (negative) impact on the consumption behaviour of their current buyers. Of the SMEs that were not or only slightly affected by the restrictions, a

mere 4% expect a lasting decline in demand.

But long-term changes in demand are not entirely negative

Our survey findings also reveal that the expectations regarding the post-coronavirus demand situation are not exclusively negative. Around 14% of SMEs expect stronger demand for their products / services after the crisis. That means one in seven SMEs expect to be able to benefit from the changes brought about by the crisis. That share is slightly above average in the retail and wholesale sector and in the services sector, at 15% each. In construction (12%) and manufacturing (11%), on the other hand, it is slightly lower.

There are SMEs that look to the future with hope even in the group of enterprises that saw their survival threatened by restrictions this past spring. Around 8% of them believe that demand for their products or services will not just recover but indeed rise after the crisis. Among SMEs that were not or only slightly affected, that share was even around 12%.

Most SMEs expect to return to pre-crisis levels

If we combine the positive and negative expectations, around one in three small and medium-sized enterprises (31%) expect the changed consumer behaviour to continue to influence demand for the most important products or services they provide even after the crisis has ended. A slightly higher share of enterprises, however, does not expect the crisis to

have a lingering effect. Roughly four in ten SMEs expect demand for their products to stabilise around pre-crisis levels. That share is highest in the group of SME wholesalers and retailers, at 53%, just ahead of manufacturing SMEs (50%). Even in the group of particularly crisis-stricken SMEs, four in ten enterprises expect to see demand for their products and services to recover after the crisis and return to the pre-crisis level.

A further 29% of SMEs have seen no effects of the crisis on demand for their products thus far. At 63%, that share is highest in construction, a sector which has felt the least impact from the pandemic.

Enabling change

The survey findings show that many SMEs believe the pandemic-induced changes to consumer behaviour will linger. A considerable number of them will be confronted with lower demand after the coronavirus crisis. In some affected segments of the business sector it will be possible to recover lost ground by adapting business models, introducing new products and services and/or modifying sales channels. The crisis has already shown that German SMEs are able to respond creatively and flexibly to changes in their business environment. A fair number of them have initiated digitalisation projects¹ and thus made the coronavirus crisis a driver of new technologies. In order to be able to successfully adapt to the new demand situation, however, many businesses will have to rely on (financial) support.

In other business sectors the decline in demand might be so large and enduring that some businesses might have no choice but to leave the market altogether. But that change in the business sector must also be enabled and at the same time it will be important to be mindful of the employees affected by the difficult transformation process.

Supplementary coronavirus surveys to the KfW SME Panel

The analyses undertaken to determine the effect of the coronavirus crisis on SMEs are based on five supplementary surveys performed as part of the KfW SME Panel.

The KfW SME Panel (KfW-Mittelstandspanel) has been conducted since 2003 as a tracking survey of small and medium-sized enterprises in Germany. The basic population includes all private-sector companies from all industries with annual turnovers of up to EUR 500 million. It is the only representative survey of the German SME sector, making it the most important source of data on issues relevant to the SME sector and for informing policymakers.

To this end, the Financial Services Division of GfK SE conducted representative supplementary online coronavirus surveys of small and medium-sized enterprises on the current impacts of the crisis on behalf of KfW Group (2–14 April, 2–12 June, 1–14 September 2020, 12 to 22 January and 3 to 14 May 2021). All enterprises that had already participated in an earlier wave of the KfW SME Panel and had provided a valid email address were surveyed.

Responses from a total of 3,400 enterprises were evaluated in the first survey, around 3,000 enterprises in the second survey, approx. 3,000 enterprises in the third survey, approx. 2,800 enterprises in the fourth survey and 2,100 enterprises in the fifth survey. As the supplementary survey was linked to the main database of the KfW SME Panel, its results provide a representative picture of the current coronavirus impact.

Further information can be obtained at www.kfw-mittelstandspanel.de.

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¹ Zimmermann, V. (2021): [KfW SME Digitalisation Report 2020: Digitalisation activity fell before Corona, ambivalent development during the crisis](#), KfW Research.