Managing Small Businesses During Recession

P A L N S Kalyani
St. Mary's Centenary Degree College, Secunderabad, Satyakalyani.999@gmail.com

Abstract:

A recession is narrowing of an economic cycle and it is referred as slowdown of economic action. The macro economic factors varies during recessions. There will be a fall in production, employment, GDP, investment, capacity utilization, spending, household income, inflation and business fall. The rate of unemployment and bankruptcies rise during recession. Due to adverse supply shock there will be a drop in consumption and there will be a bursting of economic buddle. Even though owing business organizations is not without struggles, the rewards they earn often worth it. Every entrepreneur enjoy great freedom and flexibility in comparison with a regular employee. With a right kind of state of mind and proper understanding of hardship with are to be faced, a proper plan is required to tackle the ups and down in the journey of Entrepreneurship with respect of Small Scale sector. One of the biggest challenges faced by small firms is its difficulty to reach break even. It often takes 2 to 3 years for small businesses to accomplish their goals. Especially during recession, small business organizations often hit the hardest. Reduced spending power, inadequate preparedness for recession, budget constraints etc., are making it impossible for small business to endure. The present article offers various suggestions for small businesses to manage during recession.

Key Words : Guerrilla marketing techniques, discretionary spending, business networking,
SMS Journal of Entrepreneurship & Innovation (2020)
DOI: https://doi.org/10.21844/smsjei.v6i02.18702
Corresponding Author: P A L N S Kalyani, St. Mary's Centenary Degree College, Secunderabad, Satyakalyani.999@gmail.com
How to cite this article: Kalyani, P A L N S (2020). Managing Small Businesses During Recession SMS Journal of Entrepreneurship & Innovation. 2020; 6(2):51-59
Source of support: Nil.
Conflict of interest: None

Introduction:

Owning, Managing and Operating a business takes abundant amounts of effort and time. Especially small business owners are responsible for managing all the aspects of their organization. They use a mix of knowledge, expertise and education to run their organization.

Small and Medium firms are the moral fibre of economy. Whenever markets jeopardizes due to external crisis, the small and medium enterprises are being hit.

Small Scale Business Entrepreneurs need to understand about managing employees, accurate report of financial information, acquiring the economic and business assets and taking various business decisions in all conditions of the business.

Small business organizations provides opportunities for entrepreneurs, employment and also understanding the requirements of community. Small businesses are rooted in the landscape where they breed and they also give back sustenance and vitality. Managing the small business involves risks – both qualitative and quantitative; but its running involves taking up greater risks than running a large scale organizations.

As per the updated definition of MSME (May, 2020) , the small scale enterprises are defined as business with an Investment more than Rs.10 crores and below Rs. 50 crores and Turnover with more than Rs. 50 crores but less than Rs.250 crores.

Small business generates money which helps the economic development of the nation. Bakery shops, grocery shops, auto spare part dealers , plumber, Gym, Yoga centres, beauty parlours, cloth stores, shoe stores, repair shops, petrol pumps, computer institutes, Xerox shops, stationary shops, hotels , cyber cafes, gift shops etc. are examples of small businesses. Small business organizations needs less capital than the large scale business. With fewer investments, great outputs can be achieved. Adaptability to varying economic situations and flexibility are the advantages of small in size. They can change their working style without much loss as compared to large business organizations. They tap the talent which is unnoticed by large scale organizations. Localities skills and local resources are used to the optimal level by small business. Moreover, the large scale organizations depends on small firms for completion of their work. Large scale organizations outsource many activities like supply of raw material, spare part manufacturing etc, which is required by the former. The greatest advantage of small scale organizations are they can cater to the specifications of customers proficiently as they have personal contacts with them. Small scale businesses help to encourage technical skills and handicrafts. They also earn foreign exchange by exporting their products. As the economic power diverges in different sectors, power is not restricted in fewer hands. They also promote the impartial allocation of national income. They provide income source to the local people by provide meaning to their lives.

A recession is the time of decreased economic growth and when nation has been booming facing of slow down and the effects trickle down to all from entrepreneurs to consumers. The contraction in business cycle accompanied by general decrease in economic activity is recession. They occur generally when there is extensive drop in spending by consumers. Events such as external trade jolt, financial crisis, bursting of economic bubble, adverse supply shock, large scale nature disaster, pandemic etc, triggers recession. It may last more than few moths and normally identifiable in real income, real GDP, employment, wholesale – retail sales and industrial production. During Recession revenues remains extremely depressed for many organizations. Some of the organizations even loose little amounts of their wallets and during this period the purchasing habits of the consumers will be changed. Small scale entrepreneurs need to do things differently to survive and there is a necessity for change. Tenacity, vision, basic business skills and commitment are the traits that are required for a successful entrepreneur. They need to develop and design strategies to work in changing business climate.

During recession, unemployment tends to rise quickly and remain elevated. Companies face falling revenue, increased costs, increased pressure to pay off debts, workers layoff to cut costs are the phenomenon observed during recession. On one hand newly unemployed people find it difficult to search new opportunities during recession and other the other hand, the length of unemployment of workers increases.

As critical as they are to be experienced, recessions too offer key economic advantages. Recessions are the part of economic cycle, they also bring positives when the next one hits, they bring changes in status quo and thereby ending up with benefitting individuals and society.

2. Literature Review :

Geroski et al (2007), when the aggregate demand decreases, it leads to business to exist, especially among new organizations, as they are enabling good market shares for the firms which are surviving presently. The process of enabling and constraining occurs simultaneously and unevenly during recessionary conditions.

Whittington (1989), business organizations always have discretion about the strategy they adopt inspite of resource constraints Larger the firm, greater the choice of strategic discretion with reference to their best resource base and greater preparedness towards various shocks of environment. Small organizations need to take choice regarding production, price setting, attracting customers etc.,

Eggers, Hansen & Davis (2012), studied the characteristics of SME which help them during the crises. Their nature of flexibility allows to capture opportunities due to their small size and quick decision making as the important aspects of Small business. They also obtain valuable market information which is helpful when they react to crises.

Atif R Mian (2010), studied micro level analysis of recession which provides an important clue to understand its origin and its linkage between credit and prices.

Choudhary Singh Hemandra (2010), explained the reasons and solutions for recession, one of the reason is the banking institutions and their loan policies which leads to subprime crises.

Pearce & Guy (2010), discussion about turnaround management of small and medium sized enterprises which should be given due importance during recession. It has classified phases as Decline, Failure and Turnaround.

Singh & Singh (2014), studied about the problems of SMEs and found that MSMEs contribute to development of the economy. SMEs have strategic importance which contributes to output, export, employment etc.,

Schoenberg et al (2013), observed that during recessionary conditions, the weak economic conditions prevail and financial performance will decline. They emphasized on the importance of strong leadership and effective cost control.

Balios et al, 2016 observed lack of funding due to low revenues or stringent investment policies are the consequences of crisis.

Lisboa, 2017 investigated that the financial indicators viz., debt ratio, asset structure, liquidity, profitability, creditworthiness and leverage during economic disturbances.

Piette and Zachary (2015), showed that the banks can recognize Small and Medium scaled Enterprises presented high threat during economic emergencies and in turn leads to stringent credit situations. They stated that the risk perceptions are prompt by innovative moves.

Sameen and Cowling (2015) perceived that the financial problems during the crises are mostly faced by innovative SMEs. They are likely to face utter credit rationing.

Simon-Moya, 2016, found that the small firms with greater Entrepreneurial orientation have improved survival options during and also after a financial crises.

Lumpkin, 2011 observed that the proactiveness and innovativeness have positive impact on the performance of SMEs and risk taking has negative impact.

Hong et al, 2012 studied that the SMEs market orientation during economic crises, have positive effects. The market orientation is understood as a mix of reactive approaches which caters to consumer's requirements and hands-on approach which go beyond the requirements.

Whittington 1991, Geroski and Gregg 1994, for entailing long term consequences to enable business performance, strategic choice is considered as a complex process. It needs participation of all stakeholders. During crisis situations, short term considerations are dominant. In response to strategic adaptation to recessions, business restructuring is required in the forms of functional reorganizations, substitution of managerial elites, internal arrangements etc.

Chastain 1982, Deans et al 2009, observed that the business recession presents a dilemma to business and the firms will experience cost cutting to survive during short run and for risk of capacity reduction. It is done to the degree to adequately adopt during the situations of recovery.

Silberston (1982), distinguished the firms into 'statically efficient' and 'dynamically efficient' firms to cope up to survive in changing circumstances. A firm need to be dynamically and statically efficient. They need to cut their cloth to survive during prevailing conditions and maintain to fund for business improvement to sustain satisfiable performance further than recessionary conditions.

Geroski and Gregg 1997, the pit-stop business behaviour theory states, during recessionary conditions, businesses are more innovative due to consider cost of taking next best alternative of not choosing any action which lowers them during floating times.

Bourgeois III, 1987, states businesses need to bring investment and innovation plans forward to take up the surplus of resources, as the incentives will continue when the business reduces. During success, additional resources for innovation will be generated and organizational slack is created.

Strategies to be adopted during recession:

- Retrenchment strategies
- DeDee and Vorhies, 1998, the retrenchment strategies involves divestment of assets which are non core and operating cost cutting. During recessionary times, the business horizons are shortens and the owners focus on instant endurance rather than on plans with longer duration.

- Investment strategies

(Bryan and Farrell 2008 , Lynn 2009). During recession, few firms perceive recessionary conditions as an opportunity to innovate, invest and develop into fresh markets to attain competitive advantage. Many successful business were launched during recession for example General Electricals.

- Ambidextrous strategies

Tushman and O'Reilly, 1996, He and Wong, 2004, Raisch and Birkinshaw 2008, stated that ambidextrous organizations combine discontinuous change with incremental change, they exploit the active resources to develop efficiency with investigation of novel sources of innovation and competitive advantage.

Business response to recession:

- Knowledge base : the current business economic conditions only represents a structural split in the conservative business models and there is a great level of uncertainty existed in the economic environment. There is a necessity for developing appropriate strategies to the level of uniqueness and uncertainty. Literature review of at least past 20 years helps to know how businesses have reacted to recessionary conditions. Models can be developed based in consideration with classifying the nature of response.

- Unevenness of recession : The current recession has jagged impact crosswise the business inhabitants. The small businesses have greater strategic agility when compared to large business organizations, they have bigger capacity in terms of resource to face the disturbances. During such conditions, the demand trends, domestic vs. International orientation, sources of finance used, the level of indebtedness varies.

Research Gap:

The following are the research gaps i.e, the earlier research in the given area and in the area selected by the researcher.

- The research will cover only small business organizations which was not covered earlier
- The research is focusing on managing recession stage of Business life cycle
- The research highlights about strategies to be adopted by small firms during recession

Objectives:

- To study the benefits of recession for business
- To understand the problems encountered by small businesses during recession
- To identify various ways to recession proof the small businesses

Research Methodology:

Secondary data was used for research which was gathered from resources like journals, magazines, articles, research papers etc.

Analysis and Discussion :

Recession also bring some benefits

- Some businesses viz., Retail consignment shops, grocery stores, maintenance services, bankruptcy attorney, food industry, maintenance services etc., thrive well during recession.

- Some inefficient organizations find it very complicated to stay buoyant when a drop in the sales happens. Economic declination reminds the firms to discard excessive inventory and remove overhead costs. Recessions also rationalize processes in a way that accumulate on expenditure but still meets the necessities of the consumers.

- As high rate of employment guides the companies to increase their worth of goods, it also indulge them to reduce prices for the movement of goods and services. Public can be benefitted with new and lower prices.

- Not only businessman, every one is suffered by a recession. During the situations of economic slump, it encourages people to hoard funds for the next gloomy days and keep emergency resources peak up and also to re-evaluate on how the people are managing funds. Public saves money during recessionary conditions.

- A recession is followed by recovery which includes a strong recover of share market. The investors' portfolios get hit due to massive selling, and they do not sit idle. So there are certain advantages for investors to take benefit of recessionary forces to have a strong and quick rebound positioning a portfolio.

Problems Faced by Small Businesses During Recession:

Economic recession hits small business organization often hardest. Industries like luxury services are affected more than others suffer, wherein both private customers and business cut back on their spending. Reducing spending power, budget constraints and lack of preparedness for recession can make it difficult for tiny businesses to survive. Such circumstances leads the companies to unable to persist operating when there is an inadequate support. On the other hand, small business organizations also show notable elasticity and also find innovative ways to persist during a slump.

The following are the various challenges faced by small businesses during Recession:

- Reduced Cash flows: As many small business don't have large cash resources with them, they operate on a tightly controlled cash flow. The money which comes in will immediately and if the reimbursement from a consumer is delayed, it leads the complete cycle in risk. Consumers also delay reimbursement or purchases during recession as they also will be awaiting for generation of income. Such circumstances causes trickle down effect of delay in movement of funds from one supplier to another which typically sluggish all the facets of business. They also face a problem in reduced availability of credit.

- Loss of Demand : Small sized firms often depends on few high net worth consumers from whom the revenue bulk and if that customer stops buying , they loose significant amount of Income. In the case of inventory-intensive industries, when a supplier has a huge volumes of stock which is allocated for a specific client, the business may loose funds for being not capable to sell the products to other customers.

- Reduction in staff: Financial shortages in a small business happens due to loss of revenue and business which usually results in cut in budgets wherever possible. Employee layoff is the first option for most of the businesses. As a result the company need to operate with fewer staff that are demoralized or overloaded, it reduces opportunities to generate income.

- Marketing constraints : The first activity to cut whenever a firm experience budgetary limitations is marketing. If a company has well reputable consumer base or producing an exceptional product which has low business competition, it is possible to administer without advertising and marketing even for quite a few months at a period. Advertising media also raises prices to cover rigid costs in absence of adequate business, making it more complicated for small businesses to resume marketing whenever the economy improves. Small firms fight this problem by employing Guerrilla marketing approach which cost low funds to employ.

Findings :

Ways to Recession Proof the Business :

The following are the various steps involved in recession proof of the business:

1. Slow down and reduce the outflows of cash
2. Speed up and increase cash flows
3. Positioning the business for recession
4. Team productivity

Lets discuss each point elaborately

1. Slow down and reduce outflows of Cash:

a. Monthly cash outflows (expenses) need to be reduced. It can be done by done by negotiating with vendors or landlord for a lower rates. When they are also experiencing recession, instead of keeping it vacant they may reduce prices.

b. Utilities like Power, Water, phones and internet have competitors. It is advisable to call competitors and enter into a deal to save money on utilities. If the previous vendors know their customer is switching the vendor, they can give a big discount. In this aspect, frontline sales representatives will have unadvertised discount.

c. There is a necessity to cut the wasteful discretionary spending in forms of magazine and newspaper subscriptions which were a nice perquisites during the periods of high revenue. Focus on morale boosting expenses like celebrating birthdays of staff , coffee machine etc., which benefits the employee productivity far outweighing the costs.

d. In case of buying an Asset it is better to go for Leasing instead of Buying ; as it will not effects the cash flows. In case, buying is unavoidable, it is better to buy used assets. There are plenty of used articles available from recently closed businesses.

e. Getting into better terms with vendors is another option. Having cash on hand for extra time may be crucial for survival. Getting small discounts for early payments also generates liquidity in the business.

2. Increase and speedup cash inflows:

f. Collecting receivables sooner : it is also important to improve cash inflows by offering discounts to the customers for early repayments. Credit should not be given at the expense of organization's survival. Follow stringent credit policy and extend credit to best customers only. It is advisable to be aggressive in their collection.

g. The low prices that the business offer is even more important during the recession. In such cases, customers will remember the business in first place. In most of the cases price is the most important determining factor in determining the total expenditure of ownership.

h. During recession, new business suffer a lot. During this time, a call, card, an email which is sent to new customers will be appreciating sign as it boosts up their loyalty.

3. Positioning the business for the recession:

i. Have a check on how much stock is lying on the shelves and lower the inventory costs. It is the best time to liquidate the non moving or worst selling products in the product line.

j. The term 'value' is not the same as 'low price'. It is tempting to slice prices to increase more demand. Drastic price cutting is the last tactic to be used. It is advised to revamp the product line or marketing campaigns.

k. During recession, even the competitors are sailing in the same boat. Hence, it is the perfect time to launch a new initiative, grabbing the market share from competitors and positioning oneself to accelerate through the recovery. This is the right time to build business networking.

4. Team productivity :

l. Layoffs are most common phenomenon during recession, but sometimes they are essential for company's survival. If an organization foresee layoffs coming in the coming future, it is advisable to do it sooner than later.

m. Reducing the working hours before reducing salaries will increase the productivity. Decreasing the working hours is another option that could mean recruiting one less employee rather to have layoff.

n. The owners' must cut or eliminate their own salaries before cutting employees' salaries. it is equivalent of saving 20% of cost.

o. It is always advisable to be open with the employees. Cultivating an Attitude of facing the downturn together in the organization is important. Organizing meetings to show ugly chart of negative cash flows. Including them in problem solving is sometimes enough to motivate the employees to give additional effort during tough times.

Conclusion:

The present article explained about importance of small businesses and recession in detail. It also focused on problems faced by them during recession and strategies to be followed during recession, Small and Medium sized Enterprises need to reduce costs and increase growth strategies to survive during recession. They need to have flexible managerial structure and need to adapt those strategies for survival.

Limitations :

The study is focused on secondary data only. It has concentrated only on small scale business organizations. The management of small scale business only during recessionary conditions of business cycle was undertaken during the present study.

Scope For Further Research:

The present study is focused on managing small businesses during recession. The following is the scope for further research:

- The study can further be extended to medium and large scale organizations
- The sectoral study of managing small business during recession can be made i.e., Production, Service sector, Textile industry, Chemicals industry etc.,
- The management of business during other phases of business cycle can be carried out.

References:

Alstete, JW. 2014. On becoming an entrepreneur: an evolving typology. International Journal of Entrepreneur Behaviour & Research, Vol. 8 No.4, 2002, p 222 – 234.

Bourgeois III, L. J. (1981) 'On the Measurement of Organisational Slack', Academy of Management Reviews, 6, 1, 29-40.Bryan, L. and Farrell, D. (2008) 'Leading through uncertainty', McKinsey Quarterly, online at: http://www.mckinseyquarterly.com/Leading_through_uncertainty_2263

Carter, M. 2011. Small but nimble. SME marketing. Vol. 3 Issue: 2, pp.33 – 48

Chastain, C. (1982) 'Strategic Planning and the Recession', Business Horizons, 25, 6, 39- 44.

Covin J.G., Lumpkin G.T. Entrepreneur Orientation Theory & Research: Reflection on a Needed Construct. Entrepreneurship Theory and Practice. 2011;35(5):855–872.

Cowling M., Liu W., Zhang N. Accessing to bank finance for UK based SMEs in the wake of the recent financial crisis. International Journal of Entrepreneur Behaviour & Research. 2016;22(6):903–932.

Dedee, J. and Vorhies, D. (1998) 'Retrenchment Activities of Small Firms During Economic Downturn: An Empirical Investigation', Journal of Small Business Management, 36, 3, 46-61.

Geroski, P.A. and Gregg, P. (1997) Coping with Recession: UK Company Performance in Adversity, Cambridge University Press, Cambridge.

Gopal, G. 2012. Challenges in sourcing and procurement during an economic downturn: A case study of an Indian automotive parts supplier. Business & Entrepreneurship Journal, 1(1), 13-29

Hong P., Huang C., Li B. Crisis management for SMEs: Insights from a multiple-case study. International Journal of Business Excellence. 2012;5(5):535–553.

Lisboa I. Capital structure of exporter SMEs during the financial crisis: Evidence from Portugal. European Journal of Management Studies. 2017;22(1):25–49.

Luiz, J. 2002. "Small Business Development, Entrepreneurship and Expanding the Business Sector in a Developing Economy: The case of South Africa." The Journal of Applied Business Research. Vol. 18, No.2.

Nerurkar, J. 2014 in Moore and S.L. Manring, K. "Strategy Development in Small and Medium Sized Enterprises for Sustainability and Increased Value Creation," Journal of Cleaner Production, vol. 17, pp. 276-282, 2014.

Piette C., Zachary M.-D. Sensitivity to the crisis of SME financing in Belgium. Economic Review. 2015;3:31–45.

Silberston, A. (1983) 'Efficiency and the Individual Firm', in D. Shepherd, J. Turk and A. Silberston (eds) Microeconomic Efficiency and Macroeconomic Performance, Philip Allen, London.

Simón-Moya V., Revuelto-Taboada L., Ribeiro-Soriano D. Influence of economic crisis on new SME survival: Reality or fiction? Entrepreneurship & Regional Development. 2016;28(1–2):157–176.

Tushman, M. L. and O'Reilly, C. A. (1996) 'Ambidextrous Organisations: Managing Evolutionary and Revolutionary Change', California Management Review, 38, 4, 8-30.

Whittington, R. (1989) Corporate Strategy in Recession and Recovery: Social Structure and Strategic Choice, Unwin Hyman, London